CORPORATION FOR EDUCATION NETWORK INITIATIVES IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Consolidated Financial Statements

June 30, 2024 and 2023

(With Independent Auditors’ Report Thereon)

CORPORATION FOR EDUCATION NETWORK INITIATIVES
IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Table of Contents

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Independent Auditors' Report

The Board of Directors
Corporation for Education Network Initiatives in California:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Corporation for Education Network Initiatives in California (a nonprofit corporation) and its wholly owned subsidiaries (collectively referred to herein as CENIC), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation for Education Network Initiatives in California and its wholly owned subsidiaries as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CENIC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CENIC's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CENIC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CENIC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2024 on our consideration of CENIC'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 solely 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 the effectiveness of CENIC's 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 CENIC's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
December 16, 2024

CORPORATION FOR EDUCATION NETWORK INITIATIVES
IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Consolidated Statements of Financial Position

June 30, 2024 and 2023

Assets		2024	2023
Assets:			
Cash and cash equivalents	$	25,037,432	26,445,624
Investments		17,917,561	10,286,071
Accounts receivable		40,432,297	38,522,212
Prepaid expenses		5,311,906	3,871,647
Property and equipment, net		28,146,895	30,364,293
Finance lease right-of-use assets		264,902	—
Operating lease right-of-use assets		5,591,338	5,938,177
Assets held for deferred compensation plan 457(b)		—	44,089
Other assets		45,704	45,703
Total assets	$	122,748,035	115,517,816
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	10,109,290	5,091,914
Operating lease liabilities		6,526,058	6,381,596
Finance lease liability		34,953	—
Loans payable		865,578	1,731,157
Liability for deferred compensation plan 457(b)		—	44,089
Deferred revenue		11,217,494	10,890,501
Total liabilities		28,753,373	24,139,257
Net assets:			
Without donor restrictions		93,980,553	91,378,559
With donor restrictions		14,109	—
Total net assets		93,994,662	91,378,559
Total liabilities and net assets	$	122,748,035	115,517,816

See accompanying notes to consolidated financial statements.

CORPORATION FOR EDUCATION NETWORK INITIATIVES
IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Consolidated Statements of Activities

Years ended June 30, 2024 and 2023

		2024	2023
Changes in net assets without donor restrictions:			
Revenue, gains, and other support:			
Teleconnect/E-rate	$	23,459,220	25,624,021
Network and associate fees		47,913,996	48,939,300
Internet service provider		230,912	307,511
Conference income		274,350	240,408
Exchange fees		1,000,976	1,133,324
Investment income, net		1,133,631	556,693
Grants and other income		883,916	550,320
Third party administrator income		13,157,081	14,321,490
Total revenue, gains, and other support		88,054,082	91,673,067
Expenses and losses:			
Circuits expenses		28,697,827	29,029,161
Colocation expenses		8,076,946	7,211,326
Depreciation and amortization expense		5,248,497	5,189,524
Amortization of right-of-use assets		78,755	—
Equipment expenses		869,770	659,377
Equipment maintenance		4,041,491	3,966,031
Fiber maintenance		2,374,130	2,812,719
Internet services		740,207	763,677
Meeting and conference		466,653	506,951
Special construction		1,405,155	5,859,722
Operating lease expenses		796,814	712,209
Other expenses		2,416,030	2,041,430
Outside professional services		7,901,166	6,166,547
Personnel salaries, benefits and taxes		22,033,372	18,779,637
Rent and utilities		28,916	109,931
Supplies and services		276,359	325,479
Total expenses		85,452,088	84,133,721
Increase in net assets without donor restrictions		2,601,994	7,539,346
Changes in net assets with donor restrictions:			
Grant income		14,109	—
Increase in net assets with donor restrictions		14,109	—
Increase in total net assets		2,616,103	7,539,346
Net assets:			
Beginning of year		91,378,559	83,839,213
End of year	$	93,994,662	91,378,559

See accompanying notes to consolidated financial statements.

CORPORATION FOR EDUCATION NETWORK INITIATIVES
IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

		2024	2023
Cash flows from operating activities:			
Change in net assets	$	2,616,103	7,539,346
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net realized and unrealized gain on investments		(884,022)	(354,332)
Depreciation and amortization expense		5,248,497	5,189,524
Accrued interest not paid		616	—
Noncash net investment expense		21,013	—
Noncash operating lease expense		578,689	649,806
Right-of-use asset amortization for finance lease		78,755	—
Loss from disposal of property and equipment		—	31,311
Net changes in operating assets and liabilities:			
Accounts receivable		(1,878,151)	(5,912,696)
Interest receivable		(31,933)	—
Prepaid expenses		(1,440,259)	5,061,605
Assets held for deferred compensation plan 457(b)		44,089	94,758
Liability for deferred compensation plan 457(b)		(44,089)	(94,758)
Other assets		—	(3,645)
Accounts payable and accrued expenses		5,083,505	1,166,139
Operating lease liabilities		(87,388)	(161,654)
Deferred revenue		326,993	(2,675,508)
Net cash provided by operating activities		9,632,418	10,529,896
Cash flows from investing activities:			
Purchase of investments		(18,369,458)	(4,447,573)
Proceeds from sales and maturities of investments		11,600,976	3,658,537
Purchase of property and equipment		(3,097,229)	(6,937,061)
Net cash used in investing activities		(9,865,711)	(7,726,097)
Cash flows from financing activities:			
Principal repayment of loans payable		(865,579)	(948,193)
Principal payment under finance lease obligation		(309,320)	—
Net cash used in financing activities		(1,174,899)	(948,193)
Net change in cash and cash equivalents		(1,408,192)	1,855,606
Cash and cash equivalents:			
Beginning of year		26,445,624	24,590,018
End of year	$	25,037,432	26,445,624
Supplemental disclosures of noncash investing and financing activities:			
Equipment purchases included in accounts payable and accrued expenses	$	—	66,129
Maintenance contract financed by loan payable		—	2,596,735
Noncash recognition of new leases		575,507	6,542,182

See accompanying notes to consolidated financial statements.

(1) Organization

The Corporation for Education Network Initiatives in California (CENIC) was incorporated on July 31, 1997. CENIC connects California to the world – advancing education and research statewide by providing a network essential for innovation, collaboration, and economic growth. CENIC operates the California Research and Education Network (CalREN), a high capacity network designed to meet the unique requirements of the vast majority of K-20 students together with educators, researchers, and other vital public serving institutions. CENIC's Charter Associates include the California K-12 system, California Community Colleges, the California State University system, California's Public Libraries, the University of California system, Stanford University, California Institute of Technology, and University of Southern California. CENIC also provides connectivity to leading edge institutions and industry research organizations around the world. CENIC receives its funding through contractual network fees, membership fees, federal funding, and other charges associated with the provision of network and network related services.

(2) Significant Accounting Policies

(a) Basis of Accounting

The accompanying consolidated financial statements are prepared using the accrual basis of accounting.

CENIC classifies net assets as follows:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and represent resources available to support CENIC's operations and restricted net assets that have become available for use for the purposes specified by donor(s). Net assets without donor restrictions include funds designated by the Board of Directors for specific purposes and may otherwise be limited by contractual agreements with outside parties.
- *Net assets with donor restrictions* – Net assets that represent contributions received for restricted purposes in accordance with donor-specified stipulations. These stipulations may expire over a certain time period or may be satisfied by the actions of CENIC in accordance with the donor's intentions. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions. As of June 30, 2024 and 2023, CENIC had net assets with donor restrictions of $14,109 and $0, respectively.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions as noted above. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expiration of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets (i.e., released from restrictions).

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(b) Principles of Consolidation

In fiscal year 2010, CENIC created a separate legal entity, CENIC Broadband Initiatives, LLC (CBI), a nonprofit entity, in which CENIC is the sole member for the purpose of facilitating the availability of broadband and related services to members. In May 2018, CENIC created a separate legal entity, Western Research and Education Platform, LLC (WREP), a nonprofit entity, in which CENIC is the sole member for the purpose of providing network services outside of California. In August 2021, CENIC created a separate legal entity, CENIC California Middle Mile Broadband Initiative, LLC (CCMMBI), a nonprofit entity, in which CENIC is the sole member for the purposes of developing, maintaining, and operating a California statewide open-access middle-mile broadband network. Accordingly, the financial statements include the consolidated activities of CENIC (the Parent), CBI, WREP, and CCMMBI (the wholly owned subsidiaries).

All intercompany transactions and balances are eliminated as part of the consolidation process. CENIC accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting. See note 7 for further discussion.

(c) Cash and Cash Equivalents

Cash equivalents include all highly liquid investments such as commercial paper with a maturity of three months or less from the date of purchase by CENIC. Cash and cash equivalents are held at major financial institutions and are subject to credit risk to the extent those balances exceed applicable Federal Deposit Insurance Corporation (FDIC) or Securities Insurance Protection Corporation (SIPC) limitations of up to $250,000 for each financial institution.

(d) Accounts Receivable

CENIC carries its accounts receivable at invoiced amounts less an allowance for credit losses, as deemed necessary. On a periodic basis, CENIC evaluates its accounts receivable and establishes allowances, if any, based on its historical write-offs and collections as well as current credit conditions. CENIC’s policy for writing off receivables as uncollectible varies based on the customer arrangements and management’s estimate of the customer’s ability to pay. At June 30, 2024 and 2023, no allowance for credit losses was deemed necessary.

(e) Property and Equipment

Property and equipment, which are primarily network infrastructure and equipment, are capitalized and depreciated using the straight-line method. Leased assets are amortized on a straight-line basis generally over the shorter of the lease term or estimated useful life of the asset.

CENIC has purchased indefeasible rights to use (IRUs) fiber optic cable. Such IRUs are recorded as fiber optic cable and associated conduit and amortized on a straight-line basis over the term of the related IRUs.

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CENIC has established the following useful lives for different asset types:

Office equipment	3 years
Routers/switches	4 years
Office furniture	5 years
Optronics	6 years
Fiber optic cable and associated conduit	The lesser of 20 years or the length of the IRU upon acquisition
Tenant Improvements	The lesser of the lease term or useful life of the asset

(f) Impairment of Long-Lived Assets

CENIC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no events or changes in circumstances that occurred during the years ended June 30, 2024 and 2023 that would indicate impairment of CENIC's long-lived assets.

(g) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, including subsequent related ASU amendments, that supersedes ASC 840, *Leases* and replaces it with ASC 842, *Leases*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

CENIC adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available.

CENIC has elected the package of practical expedients to account for any existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under ASC 842, (b) whether the classification of capital leases or operating lease would be different in accordance with ASC 842, or (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC 842 at lease commencement.

CENIC has elected the practical expedient available to use hindsight in determining the lease term and in assessing impairment of the CENIC's ROU assets. CENIC's election of the hindsight practical expedient resulted in extending the lease term for certain existing leases. In CENIC's application of hindsight, CENIC evaluated the current strategy related to office locations and determined that CENIC is reasonably certain to exercise renewal options included in certain leases.

CENIC has elected the short-term exemption to not recognize the asset and liability for all leases with a term of 12 months or less and do not include an option to purchase the underlying asset. Lease payments for short-term leases are recognized on straight-line basis.

(h) Investments

Investments comprise debt and equity securities that are reported at fair value. The cost of securities sold is determined by the average-cost method and is used to compute realized gains and losses on a trade-date basis. Unrealized gains and losses reflect the changes in the fair values of investments. Investment income and gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

CENIC's investment in Pacific Wave, LLC (Pacific), formerly named as National LambdaRail, LLC (NLR, LLC) before February 8, 2019, is accounted for using the equity method of accounting.

CENIC's investment in fixed annuity is reported at its cash surrender value.

(i) Fair Value Measurements

CENIC follows the provisions of ASC Subtopic 820-10, *Fair Value Measurements – Overall* (ASC 820-10), which among other things requires enhanced disclosures about investments that are measured and reported at fair value. The provisions of ASC 820-10 established a three-tier hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments that have readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. See the disclosures required under ASC 820-10 in note 5.

(j) Deferred Revenue

Fees and other up-front payments received for future periods are recorded as deferred revenue until earned.

The Broadband Infrastructure Improvement Grant (BIIG) and the Broadband Infrastructure Grant (BIG) initiatives were passed in the state budgets to support broadband infrastructure in an effort to further support educational technology and help schools with inadequate bandwidth upgrade their current connection to the Internet.

CENIC entered into contracts with multiple carriers to build the required infrastructures to deliver the services stated in the BIIG and BIG contracts. For infrastructure projects that are yet to be completed, the cash disbursements related to these projects are recorded as prepaid expenses and the related upfront payments received as deferred revenue. These cash in-flows and out-flows will be recognized in CENIC's consolidated statements of activities when services start or construction is completed. As of the years ended June 30, 2024 and 2023, CENIC had deferred revenue and prepaid expenses related to BIIG of $0 and $100,024, respectively, deferred revenue related to BIG of $3,237,236 and $5,266,499, respectively, and prepaid expenses of $0.

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(k) Revenue Recognition

CENIC recognizes revenue when it satisfies performance obligations under the terms of its service contract agreements, and control of its services is transferred to its customers in an amount that reflects the consideration CENIC expects to receive from its customers in exchange for those services. This process involves identifying the customer service contract, determining the performance obligations in the contract, determining the transaction price, allocating the transaction price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. CENIC considers a performance obligation satisfied once it has transferred control of the service to a customer, meaning the customer has the ability to direct the use and obtain benefit of the service.

CENIC launched the CalREN to support research and education. CalREN enables the use of advanced network services to support capabilities such as remote instrumentation, multicasting, video teleconferencing, video streaming, HDTV, large-scale distributed digital storage, distributed 3D interactive simulation and remote imaging, analysis, and diagnosis, etc. CENIC derives its revenue primarily from the CalREN network service fees and other service revenue, which are described below.

Network and associate fees comprise Charter Associate membership fees, backbone network service fees, circuit fees, equipment fees, and ongoing equipment maintenance fees collected from higher education institutions, K-12, research organizations, and Libraries. Revenue is recognized on a straight-line basis over the contract service period.

CENIC also receives Federal E-rate (E-rate) and State of California Teleconnect (CTF) revenue for circuit expenses incurred for the benefit of K-12 and Libraries and CTF revenue for circuit expenses incurred for the benefit of the California Community Colleges. Such revenues are based on the applicable E-rate and CTF rates and recognized in the period for which circuit expenses are incurred. Upon receipt of the E-rate and CTF revenues, CENIC gives credits, in the form of check payment or invoice credit, to the K-12, Libraries, and California Community Colleges. These credits are considered voluntary cash incentives by CENIC management to the recipients related to their use of CENIC's provided circuit connection services. The cash and noncash incentives, if any given, are recorded as a reduction of related revenue and expense, respectively, in the period that they are given.

CENIC receives income as a Third-Party Administrator from California Department of Technology (CDT) for managing the development, acquisition, construction, maintenance, and operation of a statewide open access middle mile broadband network. CENIC will recognize revenue when it satisfies the obligations under the terms of its contracts, and when services are provided and deliverables are completed.

Conference income represents sponsor and attendee revenue for conferences held by CENIC and is recognized as revenue during the period in which the conferences occur.

CENIC enters into multiple deliverable arrangements, which can include installation service, ongoing network service, and maintenance. However, the deliverables and service generally occur within the same fiscal period, and the related deferred revenue associated with these arrangements are recognized during the respective fiscal period. In certain situations when not all of the deliverables have been made during the fiscal period, the delivered items under the arrangement are evaluated for

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separability and the consideration is measured and allocated to the separate units based on their relative selling prices using third-party evidence or management's best estimate of the selling prices.

For certain long-term contracts to provide the rights to use (RTUs) fiber, CENIC may receive up-front payments for such rights for a period of up to 20 years. In these situations, CENIC defers the revenue and amortizes it on a straight-line basis to network and associate fee revenue over the term of the contract. CENIC also provides annual maintenance service in connection with these contracts and recognizes revenue ratably over the service period.

Revenue earned is recorded as with or without donor restrictions, depending on the existence and nature of any restrictions imposed by donors or by law. All contributions restricted by donor or law are reported as an increase in net assets with donor restrictions. When a restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the contribution is recorded as net assets without donor restrictions. As of June 30, 2024 and 2023, CENIC had net assets with donor restrictions of $14,109 and $0, respectively.

(l) Expenses

CENIC's major expenditures are for fiber, equipment, leasing of telecommunications circuits, equipment and fiber maintenance, and colocation.

Expenses that can be specifically identified with a particular program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by CENIC's management.

(m) Income Taxes

CENIC and CCMMBI are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and exempt from federal or state income taxes on income related to their tax-exempt purposes. However, CENIC and CCMMBI are subject to income taxes on any income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. CBI and WREP are limited liability companies formed in California, which are not subject to federal income taxes but are subject to an $800 minimum franchise tax and a limited liability company fee based on the annual income of the limited liability company imposed by the state of California. No provision for income taxes has been recorded as the net income from any unrelated trade or business is, in the opinion of management, not material to the consolidated financial statements taken as a whole.

(n) Concentration of Credit Risks

Financial instruments that potentially subject CENIC to credit risk are primarily cash, cash equivalents, and investments. CENIC has placed its cash with major financial institutions, some of which is covered by FDIC insurance. Investments and certain cash and cash equivalents are managed by the investment group of a major financial institution, which is a member of the SIPC. To further reduce custodial risk, that is, the risk of loss to CENIC's investments and certain cash and cash equivalents, they are held in CENIC's name, thereby insulating CENIC from the financial affairs of the investment advisor.

Due to the nature of its customer base, CENIC has a higher concentration of receivables in the education industry (primarily colleges, universities, and K-12 entities). CENIC believes that its credit policies do not result in significant adverse risk, and historically it has experienced minimal credit-related losses.

(o) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(p) Recently Adopted Accounting Standard

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The ASU is intended to improve financial reporting by requiring earlier recognition of credit losses on certain financial assets including trade and financing receivables. The ASU replaces the current incurred loss impairment model that recognizes losses when a probable threshold is met with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. Additionally, from 2016 through 2023, the FASB issued additional related ASUs that provide further guidance and clarification and become effective for CENIC upon the adoption of ASU 2016-13.

For CENIC, the standard was adopted effective July 1, 2023. Adoption of the standard did not have a significant impact on the financial statements.

(3) Liquidity and Availability of Financial Assets

The Board of Directors of CENIC has established an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need. To manage liquidity CENIC would use amounts in cash and investments as needed. CENIC considers its general expenditures to be operating expenses on the consolidated statements of activities. CENIC invests cash in excess of daily requirements in short-term investments, in addition to long-term investments for any unanticipated liquidity needs.

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The following reflects CENIC's financial assets available for general expenditure as of June 30, 2024 and 2023, respectively, reduced by amounts not available for general use within one year of the statement of financial position date. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon the approval by the Board of Directors.

		2024	2023
Cash and cash equivalents	$	25,037,432	26,445,624
Investments		17,917,561	10,286,071
Accounts receivables		40,432,297	38,522,212
Total financial assets		83,387,290	75,253,907
Accounts receivables scheduled to be collected in more than one year		(13,295,792)	(12,969,862)
Investment in fixed annuity		(267,021)	—
Board designations:			
Operating reserves		(6,000,000)	(6,000,000)
Capital reserves		(3,000,000)	(3,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$	60,824,477	53,284,045

(4) Investments

Investments consist of the following securities and other investment at June 30, 2024 and 2023:

		2024	2023
Description of securities:			
Fixed income securities (United States based):			
Government obligations – due within 12 months	$	9,562,183	1,921,005
Government obligations – due more than 12 months		2,281,063	1,990,210
Corporate obligations – due within 12 months		940,986	3,012,597
Corporate obligations – due more than 12 months		1,919,022	630,967
Total fixed income securities	$	14,703,254	7,554,779

		2024	2023
Equity securities:			
Common stocks:			
Telecommunication and information technology	$	1,320,138	934,017
Consumer discretionary and staples		298,382	381,232
Healthcare		363,635	295,313
Financial		335,041	257,422
Manufacturing		331,449	291,735
Other		97,641	93,174
Total common stocks		2,746,286	2,252,893
Mutual funds:		201,000	478,399
Total equity securities		2,947,286	2,731,292
Total fixed income and equity securities		17,650,540	10,286,071
Other Investment:			
Fixed annuity		267,021	—
Total Investment	$	17,917,561	10,286,071

Total net investment income for the years ended June 30, 2024 and 2023 consists of the following:

		2024	2023
Dividend	$	49,635	63,562
Interest		274,134	182,477
Net realized and unrealized gain on investments – net of investment expense and management fees of $74,160 and $43,678, for years ended June 30, 2024 and 2023, respectively		809,862	310,654
	$	1,133,631	556,693

Investment expense is included in supplies and services within the functional expense allocation (see note 15).

(5) Fair Value Measurements

Investments measured and reported at fair value are classified and disclosed in one of the following categories in accordance with ASC 820, *Fair Value Measurement*:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investment included in Level 1 are listed equity securities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing is based on significant unobservable inputs (including CENIC's own assumptions in determining the fair value of investments).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. CENIC's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

At June 30, 2024 and 2023, CENIC's investments were measured and reported at fair value based on the fair value hierarchy levels as follows:

	June 30, 2024			
	Total	**Level 1**	**Level 2**	**Level 3**
Fixed income securities	$ 14,703,254	—	14,703,254	—
Common stocks	2,746,286	2,746,286	—	—
Mutual funds	201,000	201,000	—	—
Fixed annuity	267,021	—	267,021	—
	$ 17,917,561	2,947,286	14,970,275	—

	June 30, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Fixed income securities	$ 7,554,779	—	7,554,779	—
Common stocks	2,252,893	2,252,893	—	—
Mutual funds	478,399	478,399	—	—
Fixed annuity	—	—	—	—
	$ 10,286,071	2,731,292	7,554,779	—

There were no significant transfers into or out of Level 1, Level 2, or Level 3 and purchases and issuances of Level 3 investments for the years ended June 30, 2024 and 2023.

(Continued)

(6) Property and Equipment

Property and equipment, net consist of the following at June 30, 2024 and 2023:

		2024	2023
Office equipment	$	73,714	73,713
Routers/switches		48,191,326	46,279,063
VoIP equipment		—	514,604
Office furniture		291,436	291,436
Optronics		25,468,313	25,421,954
VoIP software		—	1,779,065
Fiber optic cable and associated conduit		26,095,379	25,838,042
Tenant improvements		1,889,503	1,615,896
		102,009,671	101,813,773
Less accumulated depreciation and amortization		(89,056,035)	(88,089,014)
Property and equipment placed in service, net		12,953,636	13,724,759
Property and equipment not yet placed in service		15,193,259	16,639,534
Property and equipment, net	$	28,146,895	30,364,293

On July 20, 2017, CENIC entered into an Extension Agreement (Agreement) with Level 3 Communications, LLC (L3) to extend various IRU segments to June 24, 2039. As of June 30, 2024, payments totaling $9,768,804 have been made related to the Agreement.

(7) Investment in Pacific Wave, LLC

Effective February 26, 2003, the Board of Directors of CENIC approved a subscription agreement (the Subscription) with Pacific, a limited liability company. Pacific was organized for the purpose of sharing and expanding networks between members and subscribers in an effort to expand the network infrastructure amongst such parties and share in the cost of fiber and other network-associated costs.

Through the Subscription, CENIC receives two voting interests representing a 50% interest in Pacific in exchange for the subscription fee totaling $5,000,000, which was fully paid by July 31, 2007. During the year ended June 30, 2009, CENIC made an additional voluntary contribution totaling $600,000. Through June 30, 2009, CENIC had contributed $5,600,000 under this arrangement, consisting of 2,534 fiber miles with a carrying value of $2,534,000 and cash in the amount of $3,066,000.

In September 2014, Pacific distributed six of its eight segments of fiber valued at $834,223 to CENIC, which reduced CENIC's investment in Pacific accordingly. On July 15, 2020, CENIC entered into an additional voluntary contribution agreement with Pacific under which CENIC made an additional voluntary contribution of $250,000 to Pacific on August 17, 2020. On January 12 and August 30, 2021, CENIC made additional contributions of $47,869 and $500,000, respectively, to Pacific. For the years ended June 30, 2024 and 2023, Pacific reported a net loss of $157,278 and $153,639, respectively, and CENIC recognized a loss of $0 for its proportionate share of the loss. CENIC investment balance in Pacific as of June 30, 2024 and 2023 was zero.

The following information summarizes the activities (unaudited) of Pacific through June 30, 2024 and 2023:

		2024	2023
Pacific:			
Financial position:			
Total assets	$	420,061	559,066
Total liabilities		267,166	248,891
Total equity	$	152,895	310,175
Results of operations:			
Revenue	$	1,147,830	1,061,719
Net loss		(157,278)	(153,639)

The following information summarizes CENIC's cumulative contributions, distribution, and share of loss from its investment in Pacific through June 30, 2024 and 2023:

		2024	2023
CENIC:			
Capital contribution	$	6,397,869	6,397,869
Distribution of fiber		(834,223)	(834,223)
Share in accumulated loss of Pacific		(5,563,646)	(5,563,646)
Equity in Pacific	$	—	—
Share of net loss as reported in the consolidated statements of activities	$	—	—

(8) CENIC Broadband Initiatives, LLC

In August 2009, CENIC formed a single-member LLC, CBI, in California for the purpose of facilitating the availability of broadband and related services. In October 2009, CENIC made an initial contribution of $100,000 followed by additional contributions of $5,000 and $1,000,000 in November 2009 and July 2010, respectively.

For the years ended June 30, 2024 and 2023, CBI had gross revenue of $14,805,921 and $14,374,680, respectively, and gross expenses of $14,483,160 and $14,046,911, respectively which have been consolidated into the accompanying financial statements.

(Continued)

(9) CENIC California Middle Mile Broadband Initiative, LLC

In August 2021, CENIC formed a single-member LLC, CCMMBI, in California for the purpose of managing a California statewide open-access middle-mile broadband network for CDT. In September 2021, CENIC made an initial contribution of $200,000.

For the years ended June 30, 2024 and 2023, CCMMBI had gross revenue of $13,157,081 and $14,321,490, respectively, and gross expenses of $10,715,178 and $13,827,390, respectively, which have been consolidated into the accompanying financial statements.

(10) Retirement Plan

On July 24, 2003, the CENIC Board of Directors adopted a resolution to establish a 403(b) retirement savings plan (the Plan). This plan covers substantially all of the employees of CENIC and its wholly owned subsidiaries. Employees eligible to participate in the Plan are eligible to receive a contribution to the Plan on their behalf from CENIC and CCMMBI. Contributions on behalf of employees are calculated up to 5.0% to 10.0% of each employee’s eligible compensation. Employer contributions are calculated based on an employee’s contribution to the Plan. The contribution expense on a consolidated basis for the years ended June 30, 2024 and 2023 totaled approximately $1,477,472 and $1,299,303, respectively.

(11) Deferred Compensation Plan

Effective July 1, 2005, CENIC adopted a 457(b) Deferred Compensation Plan (the 457(b) Plan) for eligible participants as a means to defer compensation. Eligible participants are limited to employees who are defined by the 457(b) Plan. CENIC does not make any contributions to the 457(b) Plan. As of June 30, 2024 and 2023, the assets and the deferred compensation liability related to the 457(b) Plan were $0 and $44,089, respectively, which are included in the accompanying consolidated statements of financial position.

(12) Commitments and Contingencies

(a) Leases

CENIC leases many of its operating and office facilities under long-term, non-cancelable operating lease agreements. These leases expire at various dates through 2033 and provide for renewal options, which CENIC has evaluated whether it is reasonably certain to renew. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

CENIC also leases some of its equipment under a long-term non-cancelable finance lease agreement which expires in 2024 and includes an option for CENIC to purchase the equipment at $1 at the end of the lease term.

CENIC determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the consolidated statements of financial position. Finance leases are included in finance lease ROU assets and finance lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of

(Continued)

the leases do not provide an implicit rate, CENIC uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In evaluating contracts to determine if they qualify as a lease, CENIC considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

None of CENIC’s lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. CENIC has no finance leases, no sublease agreements, and no lease agreements in which it is named as a lessor.

CENIC has also made an accounting policy election as a private entity by asset class to use a risk-free discount rate for its leases.

CENIC has lease agreements with lease and non-lease components, which are generally accounted for separately. However, by electing by class of underlying asset the available practical expedient, CENIC has elected to account for the lease and non-lease components as a single lease component, which may cause variability in future lease payments as the amount of non-lease components is revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and insurance that are passed on from the lessor, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The components of lease expense, cash flow information, and other information for the years-ended June 30, 2024 and 2023 are as follows:

	2024	2023
Lease expense:		
Finance lease expense:		
Amortization of ROU assets	$ 78,755	—
Interest on lease liabilities	8,643	—
Operating lease expense	796,814	712,209
Operating lease expense included in colocation expense	72,028	72,028
Variable lease expense	—	—
Total	$ 956,240	784,237

	2024	2023
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases (i.e. Interest)	$ 8,027	—
Financing cash flows from finance leases (i.e. principal portion)	309,320	—
Operating cash flows from operating leases	383,675	295,017
ROU assets obtained in exchange for new finance lease liabilities	343,656	—
ROU assets obtained in exchange for new operating lease liabilities	231,850	6,542,182
Weighted-average remaining lease term in years for finance leases	0.25	—
Weighted-average remaining lease term in years for operating leases	8.53	10
Weighted-average discount rate for finance leases	5.35 %	—
Weighted-average discount rate for operating leases	3.63 %	3.61 %

	Finance	Operating
Maturity analysis:		
2025–06	$ 35,265	862,518
2026–06	—	922,885
2027–06	—	789,429
2028–06	—	792,739
2029–06	—	818,827
Thereafter	—	3,449,532
Total undiscounted cash flows	35,265	7,635,930
Less present value discount	(312)	(1,109,872)
Total lease liabilities	$ 34,953	6,526,058

(b) Maintenance Commitments

CENIC holds IRU on certain fibers that require annual maintenance agreements. The term of the fiber maintenance agreements is for five years with an option to extend for several five-year terms. Fiber maintenance expense under these agreements for the years ended June 30, 2024 and 2023 amounted to $1,021,575 and $1,230,862, respectively.

At June 30, 2024, future minimum annual payments for fiber maintenance agreement are as follows:

Years ending June 30:	
2025	$ 710,343
2026	1,171,860
2027	1,197,038
2028	1,232,679
2029	1,269,389
	$ 5,581,309

(Continued)

(c) Acquisition of Software and Equipment Maintenance Commitment

In July 2020, CENIC renewed its agreement with Cisco Systems Capital Corporation (Cisco Capital) for the acquisition of software and equipment maintenance services from Cisco Systems, Inc. for the period from July 1, 2020 to June 30, 2023, under which CENIC would pay Cisco Capital $7,057,086 in three annual payments. In accordance with the agreement, the annual payments are due in August 2020, 2021, and 2022, respectively. In November 2020, CENIC made the first annual payment of $2,352,362. For the quarter ended June 30, 2021, each of the remaining annual payments was adjusted from $2,352,362 to $2,193,894, which was further adjusted to $2,192,569 on July 31, 2021. In August 2021, CENIC made the second annual payment of $2,352,174, of which $159,605 was refunded to CENIC on December 3, 2021. On March 9, 2022, the remaining annual payment was further adjusted to $2,192,380. In August 2022, CENIC made the last annual payment of $2,192,380.

In July 2023, CENIC renewed its agreement with Cisco Systems Capital Corporation (Cisco Capital) for the acquisition of software and equipment maintenance services from Cisco Systems, Inc. for the period from July 1, 2023 to June 30, 2028, under which CENIC will pay Cisco Capital $10,159,062 in five annual payments. In accordance with the agreement, the annual payments are due in July 2023, 2024, 2025, 2026, and 2027, respectively. In September 2023, CENIC made the first annual payment of $2,031,812. Software and equipment maintenance expenses related to these agreements amounted to $2,031,812 and $2,192,380 for the years ended June 30, 2024 and 2023.

(d) Litigation

CENIC is subject to certain legal proceedings and claims that arise in the normal course of operations. CENIC does not believe that the amount of liability, if any, as a result of these proceedings and claims will have a materially adverse effect on CENIC's financial position, change in net assets, and cash flows.

(13) Loans Payable

On March 1, 2021, CENIC and US Bank Equipment Finance (US Bank) entered into an Installment Payment Agreement under which US Bank paid $132,934 to Rahi Systems Inc. (Rahi) for CENIC's acquisition of certain software and equipment maintenance services from Rahi for various periods ended June 30, 2022. CENIC will repay US Bank $132,934 in two annual installments of $50,319 and $82,615 due in August 2021 and 2022, respectively. In August 2021 and September 2022, CENIC made the first and second annual installments of $50,319 and $82,615, respectively.

On July 14, 2022, Juniper paid Rahi Systems Inc. (Rahi) $2,596,735 for CENIC's acquisition of certain software and equipment maintenance services from Rahi for a three-year period ending June 30, 2025. The outstanding balance of the loan payable as of June 30, 2024 and 2023 was $865,578 and $1,731,157, respectively.

(14) Related Parties

(a) Related-Party Transactions

Under CENIC's by-laws, CENIC's Board Members are primarily the Charter Associates who are described in note 1. During the years ended June 30, 2024 and 2023, CENIC recognized revenue totaling $44,797,706 and $48,762,269, or 51.5% and 53.5% of total revenue, respectively, for services rendered to its Charter Associates and other related parties such as Pacific. Amounts receivable from these related parties totaled $13,378,296 and $9,309,101 as of June 30, 2024 and 2023, respectively.

(b) Pacific

On January 31, 2012, CENIC and Pacific entered into a five-year RTU fiber agreement with an automatic renewal term of an additional five years. CENIC holds RTUs on certain fibers and agreed to grant Pacific the RTU fiber for a one-time fee of $63,300, which was received in February 2013. In the agreement, Pacific also granted CENIC a RTU fiber for a one-time fee of $204,638, which was paid in February 2013. CENIC and Pacific agreed to reimburse each other for colocation and fiber maintenance costs associated with the RTU fibers. For the years ended June 30, 2024 and 2023, CENIC recognized gross revenue of $0 and $12,240, respectively, and gross expenses of $284,209 and $164,046, respectively, from transactions with Pacific. As of June 30, 2024 and 2023, the amount receivable from Pacific related to the RTU agreement is $220,070 and $220,070, respectively, and amounts payable to Pacific is $111,250 and $0, respectively.

(15) Functional Allocation of Expenses

The consolidated statements of activities report certain categories of expenses that are attributable to one or more programs or supporting functions of CENIC. Those expenses include Personnel – salaries, benefits and taxes which are allocated based on the percentage of time spent by employees on each program. Expenses attributable to one program are recorded specifically to that program and are not allocated to other programs. Those expenses include circuits, colocation, depreciation, equipment, equipment maintenance, fiber maintenance, internet services, rent and utilities, supplies and services, and other expenses.

CENIC utilizes six different programs to serve its Charter and Non-Charter Associates: CalREN, CCMMBI, Exchange, ISP, IRNC-CORE, and Pass-Through. CalREN is a multi-tiered, advanced network backbone and enables the use of advanced network services to support research and education institutions. CCMMBI is Third-Party Administrator service provided to CDT related to a statewide open-access middle-mile broadband network. Exchange is a portion of CENIC's infrastructure that connects to the Pacific Wave facilities. Pacific Wave is a wide area advanced networking facility that is designed to provide research and education networks throughout the Pacific Rim and the world with access to separate but interrelated state of the art peering. ISP is the connectivity with commodity internet services. IRNC-CORE is National Science Foundation federal grant to upgrade certain exchange points to 100G. Pass-Through are services such as circuits, equipment, and ongoing maintenance for Charter members.

For the years ended June 30, 2024 and 2023, the functional allocation of expenses are as follows:

	Program services							Supporting activities	2024
	CalREN	CCMMBI*	Exchange	ISP	IRNC-CORE	Pass-Through CalREN	Program total	Management and general	Total expenses
Circuits expenses	$ 1,521,906	—	472,752	—	—	26,703,169	28,697,827	—	28,697,827
Colocation expenses	6,698,359	—	267,704	184,483	58,775	867,625	8,076,946	—	8,076,946 **
Depreciation and amortization expense	5,248,497	—	—	—	—	—	5,248,497	—	5,248,497
Amortization expense – ROU assets	—	—	—	—	78,755	—	78,755	—	78,755
Equipment expenses	263,134	4,539	348	—	28,066	750,124	1,046,211	(176,441)	869,770
Equipment maintenance	2,048,787	—	68,942	—	80,648	1,840,364	4,038,741	2,750	4,041,491
Fiber maintenance	1,055,822	—	8,750	—	—	1,309,558	2,374,130	—	2,374,130
Internet services	—	—	—	740,207	—	—	740,207	—	740,207
Meeting and conference	15,828	1,180	32,786	—	—	—	49,794	416,859	466,653
Special construction	—	—	—	—	—	1,405,155	1,405,155	—	1,405,155
Other expenses	540,398	366,526	4,000	18,778	15,287	1,048,592	1,993,581	422,449	2,416,030
Outside professional services	512,432	5,091,285	—	—	297,543	44,463	5,945,723	1,955,443	7,901,166
Personnel – salaries, benefits and taxes	11,776,661	5,054,050	—	73,242	59,628	393,999	17,357,580	4,675,792	22,033,372
Rent and utilities	—	1,517	—	—	—	—	1,517	27,399	28,916
Supplies and services	124,723	28,813	64	—	—	—	153,600	196,918	350,518
Operating lease expenses	572,638	13,802	—	5,411	—	—	591,851	204,963	796,814
Total	$ 30,379,185	10,561,712	855,346	1,022,121	618,702	34,363,049	77,800,115	7,726,132	85,526,247

* CENIC allocated/incurred expense only, excluding intercompany expenses.
** Includes $72,028 of operating lease expenses

	Program services							Supporting activities	2023
	CalREN	CCMMBI*	Exchange	ISP	IRNC-CORE	Pass-Through CalREN	Program total	Management and general	Total expenses
Circuits expenses	$ 1,140,741	—	749,246	—	—	27,139,174	29,029,161	—	29,029,161
Colocation expenses	5,935,441	—	248,590	194,306	34,800	798,189	7,211,326	—	7,211,326 **
Depreciation and amortization expense	5,176,363	—	—	—	—	—	5,176,363	13,161	5,189,524
Equipment expenses	806,335	38,705	9,115	—	—	(83,971)	770,184	(110,807)	659,377
Equipment maintenance	2,830,765	—	99,048	375	118,655	917,188	3,966,031	—	3,966,031
Fiber maintenance	1,349,272	—	9,000	—	—	1,454,447	2,812,719	—	2,812,719
Internet services	—	—	7,000	756,677	—	—	763,677	—	763,677
Meeting and conference	14,354	1,401	7,379	—	100	—	23,234	483,717	506,951
Special construction	—	—	—	—	—	5,859,722	5,859,722	—	5,859,722
Other expenses	514,514	469,518	8,007	20,500	3,049	853,404	1,868,992	172,438	2,041,430
Outside professional services	430,297	3,581,803	—	—	368,414	83,124	4,463,638	1,702,909	6,166,547
Personnel – salaries, benefits and taxes	9,307,986	5,339,584	—	113,554	56,612	399,896	15,217,632	3,562,005	18,779,637
Rent and utilities	—	—	—	—	—	—	—	109,931	109,931
Supplies and services	180,717	23,770	3,034	—	—	(34)	207,487	161,669	369,156
Operating lease expenses	544,353	31,790	—	5,144	—	—	581,287	130,922	712,209
Total	$ 28,231,138	9,486,571	1,140,419	1,090,556	581,630	37,421,139	77,951,453	6,225,945	84,177,398

* CENIC allocated/incurred expense only, excluding intercompany expenses.
** Includes $72,028 of operating lease expenses

(16) Subsequent Events

CENIC has evaluated subsequent events from the consolidated statements of financial position date through December 16, 2024 the date at which the consolidated financial statements were available to be issued.

KPMG

CORPORATION FOR EDUCATION NETWORK INITIATIVES IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Auditor's Reports in Accordance with the Uniform Guidance

June 30, 2024

(With Independent Auditors' Reports Thereon)

CORPORATION FOR EDUCATION NETWORK INITIATIVES IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Table of Contents

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550 South Hope Street
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Independent Auditors' 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
Corporation for Education Network Initiatives in California

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 consolidated financial statements of Corporation for Education Network Initiatives in California and its wholly owned subsidiaries (CENIC), which comprise CENIC's consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CENIC*'s* internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CENIC*'s* internal control. Accordingly, we do not express an opinion on the effectiveness of CENIC*'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CENIC's consolidated 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Los Angeles, California
December 16, 2024

KPMG LLP
Suite 1500
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Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Corporation for Education Network Initiatives in California:

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Corporation for Education Network Initiatives in California and its wholly owned subsidiaries (collectively referred to herein as CENIC)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on CENIC's major federal program for the year ended June 30, 2024. CENIC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, CENIC 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, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CENIC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of CENIC's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to CENIC's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CENIC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CENIC's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CENIC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CENIC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of CENIC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KPMG

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of CENIC as of and for the year ended June 30, 2024, and have issued our report thereon dated December 16, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Los Angeles, California
December 16, 2024

CORPORATION FOR EDUCATION NETWORK INITIATIVES IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended June 30, 2024

Federal grantor/pass-through agency/program title	Federal assistance listing number	Amounts passed to subrecipients	Total federal expenditures
Research and Development Cluster:			
Direct award:			
National Science Foundation:			
Computer and Information Science and Engineering	47.070	$ 297,543	883,916
Total expenditures of federal awards		$ 297,543	883,916

See accompanying notes to schedule of expenditures of federal awards.

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal financial assistance programs of Corporation for Education Network Initiatives in California and its wholly owned subsidiaries (collectively referred to herein as CENIC).

(2) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of CENIC. Because the Schedule presents only a selected portion of the operations of CENIC, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of CENIC. For the purposes of the Schedule, federal awards include all grants and contracts entered into directly between CENIC and agencies and departments of the federal government and pass-through agencies. The awards are classified into major program categories in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), for Audits of States, Local Governments, and Non-Profit Organizations.

(3) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

(4) Indirect Cost Rate

CENIC did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance Section 200.414. No indirect costs are allocated to federal awards for the year ended June 30, 2024.

CORPORATION FOR EDUCATION NETWORK INITIATIVES IN CALIFORNIA AND ITS WHOLLY OWNED SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2024

(1) Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major program disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Identification of Major Programs:

Assistance listing number	Name of federal program or cluster
47.070	Research and Development Cluster – Computer and Information Science and Engineering

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards:

None