

CALIFORNIA BROADBAND COOPERATIVE, INC.

FINANCIAL STATEMENTS

June 30, 2021

(With summarized financial information for 2020)



CALIFORNIA BROADBAND COOPERATIVE, INC.

T A B L E O F C O N T E N T S

	Page(s)
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5–14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
California Broadband Cooperative, Inc.
Vallejo, California

We have audited the accompanying financial statements of California Broadband Cooperative, Inc., (a nonprofit organization, or the "Company") which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 Broadband Cooperative, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited California Broadband Cooperative, Inc. 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM LLP

San Francisco, California
October 28, 2021

CALIFORNIA BROADBAND COOPERATIVE, INC.

STATEMENT OF FINANCIAL POSITION

For the year ended June 30, 2021
(With summarized financial information as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash	\$ 966,353	\$ 2,718,207
Accounts receivable	1,203,685	804,338
Accounts receivable - related party	316,357	381,549
Prepaid expenses	<u>13,746</u>	<u>31,334</u>
Total current assets	2,500,141	3,935,428
Property and equipment, net	<u>69,326,467</u>	<u>73,691,233</u>
Total assets	<u>\$ 71,826,608</u>	<u>\$ 77,626,661</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 140,305	\$ 310,074
Accounts payable and accrued liabilities - related party	360,320	311,579
Deferred revenue, current portion	581,199	581,199
Other liabilities	<u>317,575</u>	<u>435,859</u>
Total current liabilities	1,399,399	1,638,711
Deferred revenue, net of current portion	<u>6,331,640</u>	<u>6,837,211</u>
Total liabilities	7,731,039	8,475,922
Commitments and contingencies (Note 6)		
Net assets:		
Net assets without donor restrictions	<u>64,095,569</u>	<u>69,150,739</u>
Total liabilities and net assets	<u>\$ 71,826,608</u>	<u>\$ 77,626,661</u>

CALIFORNIA BROADBAND COOPERATIVE, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2021

(With summarized financial information as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
Operating activities:		
Revenue:		
Commercial services revenue	\$ 4,715,299	\$ 4,476,965
Telecommunications infrastructure revenue	<u>477,470</u>	<u>678,805</u>
	5,192,769	5,155,770
Cost of revenue	<u>370,628</u>	<u>391,635</u>
Gross profit	<u>4,822,141</u>	<u>4,764,135</u>
Expenses:		
Program:		
Depreciation and amortization expense	5,696,263	5,681,349
Project management services	2,030,448	2,030,448
Subrecipient services - residual payment	857,078	478,015
Property taxes	315,640	286,622
Contract services	196,680	148,680
Rent	81,956	55,052
Repairs and maintenance	59,939	245,747
Sales commissions	53,346	97,002
Interest expense	-	919
Other program expenses	<u>390,717</u>	<u>527,223</u>
Total program	<u>9,682,067</u>	<u>9,551,057</u>
Management and general:		
Rent	37,813	39,890
Other management and general expenses	<u>153,688</u>	<u>121,557</u>
Total management and general	<u>191,501</u>	<u>161,447</u>
Total expenses	<u>9,873,568</u>	<u>9,712,504</u>
Change in net assets from operating activities	(5,051,427)	(4,948,369)
Nonoperating income:		
Miscellaneous income (expense)	<u>(3,743)</u>	<u>94,355</u>
Change in net assets	(5,055,170)	(4,854,014)
Net assets without donor restrictions, beginning of year	<u>69,150,739</u>	<u>74,004,753</u>
Net assets without donor restrictions, end of year	<u>\$ 64,095,569</u>	<u>\$ 69,150,739</u>

CALIFORNIA BROADBAND COOPERATIVE, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2021

(With summarized financial information as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (5,055,170)	\$ (4,854,014)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	5,696,263	5,681,347
Changes in operating assets and liabilities:		
Accounts receivable	(399,347)	31,518
Accounts receivable - related party	65,192	(65,051)
Prepaid expenses	17,588	32,504
Accounts payable and accrued liabilities	(169,769)	(166,308)
Accounts payable and accrued liabilities - related party	48,741	262,134
Deferred revenue	(505,571)	1,577,886
Other liabilities	(118,284)	12,358
	<u>(420,357)</u>	<u>2,512,374</u>
Net cash (used in) provided by operating activities	(420,357)	2,512,374
Cash flows used in investing activities:		
Purchases of property and equipment	(1,331,497)	-
	<u>(1,331,497)</u>	<u>-</u>
Net change in cash	(1,751,854)	2,512,374
Cash, beginning of year	<u>2,718,207</u>	<u>205,833</u>
Cash, end of year	<u>\$ 966,353</u>	<u>\$ 2,718,207</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 800</u>	<u>\$ 800</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 919</u>

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

1. Description of Organization and Financial Results and Liquidity

Description of Organization

California Broadband Cooperative, Inc. (“CBC” or the “Company”), a nonprofit corporation, was incorporated on July 6, 2009, for the purpose of constructing, owning and operating a broadband network in the Eastern Sierra region of California and Nevada, a severely underserved region with respect to broadband facilities. Activities of CBC include obtaining adequate funding for construction of the network, designing and installing the network, and subsequently operating the network on behalf of its members. In late 2009, CBC applied for and obtained grant funding from the California Advanced Services Fund. In August 2010, CBC was awarded grant funding from the National Telecommunications Information Association’s Broadband Technology Opportunities Program (“BTOP”). Construction on the Digital 395 Middle Mile network began in August 2010, and the majority of the network was completed in March 2014. The Digital 395 Network is owned and operated by CBC, which is a member-owned cooperative. Membership is open to all wholesale level customers, and prospective members are required to purchase facilities or services in order to join the cooperative. Potential cooperative members are Government, Education and Medical agencies, and Telephone, Wireless, Cable TV, and Internet Service Providers. Membership will be on a voluntary basis.

Liquidity

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 966,353
Accounts receivable	1,203,685
Accounts receivable - related party	<u>316,357</u>
	<u>\$ 2,486,395</u>

For purposes of analyzing resources to meet general expenditures over a twelve month period, CBC considers all expenditures related to ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of CBC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial accounting standards require not-for-profit organizations to classify net assets in the accompanying statement of financial position as without donor restriction and with donor restriction based on the existence or absence of donor-imposed restrictions.

Net Assets without Donor Restrictions

Those net assets and activities which represent the portion of expendable funds that are available to support CBC’s operations.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

2. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

Net Assets with Donor Restrictions

Those net assets and activities which are donor-restricted for (a) support for specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) acquisition of long-lived assets; or (e) donor-imposed stipulations stating that they must be maintained permanently by CBC. There were no net assets with donor restrictions as of June 30, 2021.

Nature of Operations

CBC's measure of operations is its changes in net assets from operating activities, which includes all operating revenues without donor restrictions and expenses that are an integral part of its program to own and operate a broadband network.

Fair Value of Financial Instruments

The carrying amount of cash, receivables, and payables approximate fair value because of the short maturity of those instruments.

Cash

Cash consists of demand deposits in checking accounts reconciled for outstanding checks and deposits in transit. At times, such amounts may exceed Federal Depository Insurance Corporation limits. CBC considers investments with maturity of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable consists of amounts due from customers. At June 30, 2021, management believes the accounts receivable balance is collectible, therefore, no allowance for doubtful accounts has been provided.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Donated property and equipment are recorded at estimated fair value at the date of donation. Property and equipment that is acquired with resources restricted from such acquisition is considered with donor restrictions and is released from restrictions when grantor restrictions expire.

Maintenance, repairs, and minor renewals are charged against earnings. Additions and major renewals of \$5,000 or greater are capitalized when the anticipated life is expected to be one year or greater. Under the terms of the grant agreement, all property and equipment acquired with grant funds, reverts back to the grantor if it is no longer used by CBC for the purposes stated within the grant.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

2. Summary of Significant Accounting Policies, continued

Property and Equipment, continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of CBC's property and equipment used in determining depreciation expense are as follows:

Buildings and outside plant	20 years
Leased property and leasehold improvements	20 years
Furniture, fixtures, and equipment	5 to 10 years
Software	10 years
Vehicles	5 years

CBC evaluates the carrying value of long-lived assets in accordance with the accounting guidance for the impairment or disposal of long-lived assets. No impairment loss was recorded during the year ended June 30, 2021.

Deferred Revenue

Non-refundable payments received from customers before the relevant criteria for revenue recognition are satisfied are included in deferred revenue in the accompanying statement of financial position and are subsequently amortized into income over the fixed contract term.

Revenue Recognition

Commercial Services Revenue

CBC recognizes revenues derived from building and leasing fiber optic telecommunications infrastructure and the provision of telecommunications services when the performance obligations under the terms of CBC's contracts with its customers have been completed at which point control of the promised product or service is transferred to customers. The Company's contractual obligations to its customers generally have a single point of obligation and are short-term in nature. As a result, CBC is not required to separately disclose aggregate amounts of unsatisfied (or partially satisfied) performance obligations as of the end of the period.

Revenue is measured in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

As required by law, CBC collects various taxes from its customers and subsequently remits these taxes to governmental authorities. Included in taxes collected are federal Universal Service Fund ("USF") and Telecommunications Relay Service ("TRS") charges. Substantially all of these taxes are included in other liabilities on the statement of financial position. They are reported on a net basis and are excluded from revenue.

Special Construction Revenue

Special construction revenue, related to the construction of telecommunications infrastructure for commercial customers, is recognized based on the completion method. There was no special construction revenue for the year ended June 30, 2021.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

2. Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

Telecommunications Infrastructure Revenue

CBC periodically transfers, via lease agreements, optical capacity (dark fiber) assets on their network to other telecommunications service carriers. CBC typically records revenues from leases of dark fiber, including indefeasible rights-of-use (“IRU”) agreements, over the term that the customer is given exclusive access to the assets, typically 20 years. CBC’s dark fiber IRU agreements generally require the customer to pay the entire lease amount, or a substantial portion thereof, upon the execution of the agreement; CBC then recognizes the revenue ratably over the lease term. Payment related to dark fiber maintenance services is generally required upon the execution of the agreement and is recognized ratably over the period of maintenance service, typically twelve months. These prepaid amounts are included in deferred revenue on the statement of financial position until earned.

Cost of Revenue

Cost of revenue consist of, both one-time and reoccurring, direct expenses incurred to service specific customers.

Income Taxes

CBC is exempt from taxation under Section 501(c)(12) of the Internal Revenue Code and is generally not subject to federal income tax. Under the California Revenue and Taxation code, CBC is a for-profit corporation, which is subject to California franchise tax. However, CBC’s management believes that it qualifies as a cooperative association under CR & TC section 24405, which provides an exclusion to pay tax on otherwise taxable income derived from members of the cooperative. As of June 30, 2021, CBC had no material non-member income. As a for-profit corporation for State purposes, CBC uses the liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As of June 30, 2021, there were no significant deferred tax assets or liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. At June 30, 2021, CBC did not have a valuation allowance.

Occasionally, CBC will recognize revenue from non-members which is subject to Unrelated Business Income Tax (“UBIT”) under the California Revenue and Taxation Code but not the Federal Internal Revenue Code. CBC follows guidance for the recognition of uncertain tax positions. CBC has concluded there are no uncertain tax positions for tax year end June 30, 2021.

Concentrations of Credit Risk

For the year ended June 30, 2021, one customer represented 22% of total commercial services revenue.

As of June 30, 2021, three customers accounted for 38% of accounts receivable.

As of June 30, 2021, one vendor accounted for 91% of accounts payable.

CBC purchased services from related parties during the year ended June 30, 2021 that made up 30% of total expenses within the statement of activities (see Note 5).

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

2. Summary of Significant Accounting Policies, continued

Functional Classification of Expenses

Directly identifiable expenses are charged to programs or management and general. Expenses related to more than one function are charged to programs and management and general on the basis of management's estimate of professional services' split purposes. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of CBC.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and revenue and expenses, as well as contingent assets and liabilities during the reporting periods. Actual results could differ from those estimates.

Change in Accounting Principles

During the year-end June 30, 2021, the Company adopted the requirements for Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance (*Topic 605*), including industry-specific guidance. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company has concluded that no significant changes are necessary to conform with the new standard. Revenue is derived from the delivery of services over time and performance obligations are satisfied concurrently.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (842)*. The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2020, and interim periods beginning the following year. Early application is permitted. In 2021, the FASB voted to allow private companies to defer the adoption of this pronouncement to annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of this ASU on its financial statements.

In September 2020, the FASB issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to clarify the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items. The ASU does not change existing recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for annual reporting periods beginning after June 15, 2021, with early adoption permitted. CBC is currently evaluating the effect of adoption on its financial statements.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with CBC's financial statements as of and for the year ended June 30, 2020, from which the summarized comparative information was derived.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

3. Property and Equipment

Property and equipment consisted of the following at June 30, 2021:

Buildings and outside plant	\$ 99,232,717
Leased property and leasehold improvements	4,569,272
Furniture, fixtures, and equipment	5,168,345
Software	1,674,687
Vehicles	355,938
	<hr/>
	111,000,959
Less accumulated depreciation	<hr/> (42,254,761)
	68,746,198
Land	367,645
Right of way, easement	<hr/> 212,624
Property and equipment, net	<hr/> <u>\$ 69,326,467</u>

Depreciation and amortization expense for the year ended June 30, 2021 was \$5,696,263.

4. Deferred Revenue and Other Liabilities

Deferred Revenue

Deferred revenue primarily consists of telecommunication infrastructure revenue from IRU agreements with certain customers that span from five to twenty years, which end dates ranging from fiscal years 2020-2037.

Deferred revenue as of June 30, 2021 is scheduled to be recognized as follows:

	Deferred Revenue
	<hr/>
2022	\$ 581,199
2023	505,570
2024	504,901
2025	493,388
2026	480,935
Thereafter	<hr/> 4,346,846
	<hr/> <u>\$ 6,912,839</u>

Line of Credit

In June 2021, the Company entered into a secured revolving credit facility for up to \$500,000, at an interest rate of the prime rate plus 1.10% and is due on demand. The loan is secured by the Company's assets. As of June 30, 2021, the Company had not made any withdrawals on the loan.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

5. Related Party Transactions

Project Management Services

CBC has entered into a subrecipient agreement with Praxis Associates, Inc. (“Praxis”), an organization that is controlled by CBC’s Chief Executive Officer and Chief Operating Officer. Both officers sit on the Board of Directors and hold executive management positions within Praxis. Praxis is a broadband network development company focused on delivering state of the art fiber optic network solutions to its client partners. In this agreement, Praxis provides project management and fiscal management services which included strategic, analytical, logistical, operational aspects of optical access network, labor and constructions services, processing financial transactions, and financial reporting to support the ongoing operations of CBC (see Note 6).

Network Operation Services

In 2014, CBC entered into a management services agreement with Praxis. In this agreement, Praxis will provide network operations services, which include marketing and sales, customer care, service provisioning, network provisioning, service assurance, billing, and business support to CBC. In July 2019, both parties amended the management services agreement to assign Praxis the operational responsibility for motor vehicles and reduced the annual fee for services to \$2,030,448 as part of Management’s plan to mitigate the risk of a going concern.

Praxis subcontracts portions of this agreement, including marketing and sales and network provisioning, to Inyo Networks, Inc. (“Inyo”). Inyo is an organization that is controlled by CBC’s Chief Executive Officer and Chief Operating Officer. Both officers sit on the Board of Directors and hold executive management positions with Inyo. In addition, Inyo will service all customers that are not considered CBC customers per the terms of the contract. As of June 30, 2021, accounts receivable - related party totaled \$320,346 and consists of amounts due from Inyo for commercial services provided by CBC to customers that are not considered CBC customers, there is no other related-party receivables due from Praxis at fiscal year-end.

Praxis and Inyo provided services for the year ended June 30, 2021 totaling \$2,030,448 and \$53,346 which are recorded in project management services and sales commissions, respectively.

Indefeasible Rights-of-Use Contracts

CBC entered into a 20-year IRU contract for \$900,000 with Inyo Networks signed in fiscal year 2017 but became effective in fiscal year 2018. As of the year ended June 30, 2021, commercial services recognized from this contract totaled \$176,250 and \$723,750 is included within deferred revenue.

In October 2019, CBC entered into a new IRU lease with Inyo Networks for 6 dark fibers for a \$2,100,000 IRU fee and annual maintenance fees of \$31,500 for a term of 20 years with the option of two additional 10-year renewals. As of the year ended June 30, 2021, commercial services recognized from this contract totaled \$175,000 and \$1,925,000 is included within deferred revenue.

Accounts Payable and Accrued Liabilities - Related Party

At June 30, 2021, CBC had total accounts payable of \$360,320 owed to Praxis Associates and Inyo Networks, Inc. for project management services and residual payments due under the subrecipient agreement (Note 6).

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

6. Commitments and Contingencies

Commitments

Operating Leases

CBC leases an office in Reno, Nevada under a noncancelable operating lease arrangement. The lease ended May 6, 2018 and was amended for an additional five-year term ending May 31, 2023. The monthly rent for this office space is \$1,800, subject to a 3% annual increase.

CBC leases an office in Bishop, California on a month-to-month basis. The monthly rent for this office space is \$1,465.

Node Sites - Licenses and Leases

CBC has entered into license and lease agreements in Mono and Inyo Counties for use of county land for node sites and for use of county rights of way for underground fiber optic transmission lines.

The annual license agreement for Coleville, CA in Mono County is effective from December 1, 2011 through November 30, 2031. The annual license fee is \$2,191, adjusted annually based on Consumer Price Index ("CPI") for all urban consumers in the Los Angeles-Riverside-Orange Licensor as published by the United States Department of Labor's Bureau of Labor Statistics ("Bureau").

The annual license agreement for Lee Vining, CA in Mono County is effective from October 20, 2011 through October 19, 2021. The annual license fee is \$2,131.

The annual license agreement for Bishop, CA in Inyo County was effective from August 1, 2013 through July 31, 2018, after which the lease was transformed to a year-to-year lease. The original annual license fee base was \$8,000, subject to a 3% annual increase. For the year ended June 30, 2021, lease expense was \$9,837.

The annual license fees of \$2,131 were waived for the Inyo County node sites located in Independence, CA and Cartago, CA. The license agreements are effective from November 22, 2011 through November 23, 2031.

The annual license fee of \$2,131 was waived for the Mono County node site in Mammoth Lakes, CA. The license agreements are effective from December 1, 2011 through November 30, 2031.

Minimum Lease Payments

The minimum future lease and license payment under the noncancelable agreements are as follows:

	Operating Leases	Node Sites
2022	\$ 21,654	\$ 5,098
2023	20,394	5,098
2024	-	5,098
2025	-	5,098
2026	-	5,098
Thereafter	-	25,481
	<u>\$ 42,048</u>	<u>\$ 50,971</u>

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

6. Commitments and Contingencies, continued

Commitments, continued

Minimum Lease Payments, continued

For the twelve-month period ended June 30, 2021, CBC had \$53,116 of operating lease and node license payments, which were expensed as incurred.

Contract Services

In August 2013, CBC entered into several contract service agreements with a third party, which connects the network to the Internet. These agreements were effective through July 2016 from which point they continue on a month-to-month basis, until terminated by either party. The fees for these services were \$196,680 for the year ended June 30, 2021, which includes any applicable taxes, fees, and surcharges.

Subrecipient Agreement/Related Party Transactions

According to the subrecipient agreement entered into with Praxis, CBC has certain financial obligations to Praxis for services provided as outlined in the subrecipient agreement (see Note 5). As a part of the consideration outlined in the subrecipient agreement, CBC agreed to post-project completion obligations which include residual payments to Praxis that will occur after the project period for 8 years that are equal to 20% of CBC's gross revenues. Additionally, CBC granted 12 IRU fibers to Praxis, for the useful life of such fibers, without additional charge for maintenance. The right to these fibers has not been exercised as of June 30, 2021.

The right to the fibers is contingent upon the ability to make residual payments. If residual payments are not paid within six months of the original due date, the subrecipient shall have the option of substituting alternative consideration for all or part of the equivalent value. Alternative consideration shall be in the form of additional IRU fibers or lit services on the CBC network between Reno, NV and Barstow, CA. The amount of fibers or services necessary to compensate the subrecipient for the abated residual payments shall be valued at 75% of the current market rate paid by other members of the Cooperative for similar IRU or service arrangements, subject to compliance with Federal Communications Commission and California Public Utilities Commission open access rules. While this option can still be exercised by Praxis, no such communication was received by CBC as of the date of this report.

In May 2020, an amendment was signed superseding the prior agreement, which eliminates all liability for accrued residual payments and interest incurred through December 31, 2019. Beginning with the quarter ended March 31, 2020, CBC will make quarterly payments to Praxis in the amount of 20% of its commissionable revenue through December 31, 2032. The residual payment expense incurred was \$857,078 for the year ended June 30, 2021. For the year ended June 30, 2021, \$263,222 of residual payments was included with accounts payable and accrued expenses - related party in the statement of financial position.

In March 2020, the World Health Organization declared the novel coronavirus "Covid-19" a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations. It is not possible for CBC to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on its operations and financial results at this time.

CALIFORNIA BROADBAND COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

7. Subsequent Events

CBC has evaluated subsequent events for recognition and disclosure through October 28, 2021, the date which these financial statements were available to be issued. No other events have occurred outside the ordinary course of business that require recognition or disclosure in these financial statements except as follows:

In August 2021, CBC entered into a new IRU lease with a customer for 2 dark fibers for a \$916,000 IRU fee and annual maintenance fees of \$27,480 with a 1% increase every three years over a term of 20 years.