



DNS-OARC

Domain Name System Operations Analysis and Research Center

**OARC,
INC.**

Financial Statements

For the Years Ended
December 31, 2013 and 2012

OARC, INC.

(A Delaware Not-For-Profit Corporation)
December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
OARC

We have audited the accompanying financial statements of OARC (a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OARC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The prior year summarized comparative information has been derived from OARC's December 31, 2012 financial statements. In our report dated April 15, 2013, we expressed an unqualified opinion on those financial statements.

1st Draft

Danville, California
April 21, 2013

OARC, INC.

**Statements of Financial Position
December 31, 2013 and 2012**

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	\$ 294,900	\$ 165,468
Accounts receivable, net	27,000	38,250
Prepaid expenses and other current assets	-	-
Total current assets	<u>321,900</u>	<u>203,718</u>
Property and equipment, net	<u>82,660</u>	<u>4,969</u>
	<u>\$ 404,560</u>	<u>\$ 208,687</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and other accruals	\$ 30,464	\$ 8,765
Deferred revenue	183,011	111,714
	<u>213,475</u>	<u>120,479</u>
Net assets:		
Unrestricted	<u>191,085</u>	<u>88,208</u>
Total net assets	<u>191,085</u>	<u>88,208</u>
	<u>\$ 404,560</u>	<u>\$ 208,687</u>

OARC, INC.

**Statements of Activities and Changes in Net Assets
Years Ended December 31, 2013 and 2012**

	2013	2012
<i>Changes in unrestricted net assets:</i>		
Revenue and support:		
Membership fees	\$ 311,204	\$ 249,639
Donations and grants	128,239	17,711
Total revenue and support	439,443	267,350
Operating expenses:		
Program	303,317	139,586
General and administrative	33,249	36,120
Fund raising	-	-
Total operating expenses	336,566	175,706
Increase in net assets	102,877	91,644
Net assets (deficit) at beginning of year	88,208	(3,436)
Net assets at end of year	\$ 191,085	\$ 88,208

OARC, INC.

**Statements of Cash Flows
Years Ended December 31, 2013 and 2012**

	2013	2012
<i>Operating activities:</i>		
Increase in net assets	\$ 102,877	\$ 91,644
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	19,723	6,716
Changes in:		
Accounts receivable, net	11,250	(2,250)
Accounts payable and accrued liabilities	21,699	2,265
Deferred revenue	71,297	(7,139)
Cash provided by operating activities	226,846	98,028
 <i>Investing activities:</i>		
Acquisition of property and equipment	(97,414)	(850)
Cash used for investing activities	(97,414)	(850)
 Increase in cash and cash equivalents	 129,432	 97,178
Cash and cash equivalents at beginning of year	165,468	68,290
Cash and cash equivalents at end of year	\$ 294,900	\$ 165,468
 <i>Additional cash flow information:</i>		
Interest paid	\$ -	\$ -
Tax registration fees	\$ 75	\$ 75

OARC, INC.

**Statement of Functional Expenses
Year Ended December 31, 2013**

(with Summarized Financial Information for the Year Ended December 31, 2012)

	General & Admin- Programs	istrative Fund	Raising	2013 Totals	2012 Totals
Bad debts	\$ -	\$ 3,750	\$ -	\$ 3,750	\$ 20,750
Bank charges and other fees	-	1,132	-	1,132	694
Conferences and meetings	32,798	-	-	32,798	-
Depreciation and amortization	16,765	2,958	-	19,723	6,716
Office and other	2,091	1,394	-	3,485	3,367
Postage and shipping	-	1,077	-	1,077	130
Professional and consulting	217,939	16,986	-	234,925	123,301
Occupancy	10,565	1,865	-	12,430	12,000
Telephone and telecommunications	1,604	283	-	1,887	130
Travel and related expenses	21,555	3,804	-	25,359	8,618
Totals	\$ 303,317	\$ 33,249	\$ -	\$ 336,566	\$ 175,706

Notes to Financial Statements
December 31, 2013

1. Organization

OARC, Inc. is a 501(c)(3) nonprofit public benefit corporation incorporated in the state of Delaware, with an office and employees in California. OARC was conceived in 2004 and then incorporated in late 2008 as part of a joint research proposal with CAIDA to the National Science Foundation. OARC was conceived as a membership organization where DNS operators, network researchers, software implementers, and others could participate to share data, common problems, and solutions in a secure environment.

OARC provides and develops direct real-time assistance and information from TLD and other root server operations in the event of denial-of-service attacks against members' infrastructure. OARC's mission is to build trust among its members through forums where information can be shared in confidence; to enable knowledge transfer by organizing semiannual workshops; to promote research through data collection, analysis, and simulation; and to increase awareness with publicly available tools and services.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the OARC have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

OARC considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. OARC maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. OARC has not experienced any losses in such accounts.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. The cost of property and equipment greater than \$500 is capitalized and depreciated over the estimated useful life of each class of depreciable asset.

Net Assets

In accordance with accounting principles generally accepted in the United States of America Under (ASC 958.205), financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

OARC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support. OARC had no temporarily restricted net assets as of December 31, 2013 and 2012.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions. The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. OARC had no permanently restricted net assets as of December 31, 2013 and 2012.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set-aside as of December 31, 2013 and 2012.

Revenue and Support Recognition

OARC receives revenue from a variety of sources. Revenues from other restricted grants and donations are recognized as income in the temporarily restricted fund in the period in which donor conditions are met and grant proceeds are considered earned.

Contributions

OARC records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in unrestricted net assets.

(continued)

Notes to Financial Statements**2. Summary of Significant Accounting Policies** *(continued)**Contributions*

Although it had none for the years ended December 31, 2013 and 2012, OARC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions in which the donor restrictions are never relieved are recorded as permanently restricted support. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

OARC's policy is to record donated property at the estimated fair value at the date of receipt. OARC reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, OARC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. OARC recognized \$50,000 of in-kind contributions during the year ended December 31, 2013. There were no in-kind contributions during the year ended December 31, 2012.

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, OARC is required to report information regarding its exposure to various tax positions taken by OARC and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that OARC has adequately evaluated its current tax positions and has concluded that as of December 31, 2013, OARC does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

OARC has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that OARC continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. OARC may periodically receive unrelated business income requiring OARC to file separate tax returns under federal and state statutes. Under such conditions, OARC calculates and accrues the applicable taxes payable.

Notes to Financial Statements

3. Cash and Cash Equivalents

Cash and cash equivalents of \$294,900 and \$165,468 at December 31, 2013 and 2012, respectively, consist of funds on deposit in a checking account at a local financial institution with a maturity date of three months or less.

4. Accounts Receivable

Accounts receivable of \$27,000 and \$38,250 at December 31, 2013 and 2012, respectively, are due within one year from various third parties and are reflected net of an allowance for doubtful accounts in the amount of \$10,000 and \$6,250 at December 31, 2013 and 2012, respectively.

5. Property and Equipment

A summary of property, equipment and improvements is as follows at December 31:

	2013	2012
Computers and related equipment	\$ 117,561	\$ 20,147
Less accumulated depreciation	(34,901)	(15,178)
Total property and equipment, net	\$ 82,660	\$ 4,969

Total depreciation expense for the years ended December 31, 2013 and 2012 amounted to \$19,723 and \$6,716, respectively.

6. Deferred Revenue

Deferred revenue of \$183,011 and \$111,714 at December 31, 2013 and 2012, respectively, consists of funds received in advance of services to be performed and are scheduled to be recognized in the following year. Such amounts have been reflected as short-term liabilities and will be reflected as revenue on the statements of activities and changes in net assets in the subsequent fiscal period.

7. Lease Commitment

OARC leases its corporate office space under a month-to-month operating agreement with Internet Systems Consortium, a related entity. The office lease agreement provides for a monthly rental payment of \$1,030 as of December 31, 2013. Rent expense for the years ended December 31, 2013 and 2012 amounted to \$12,430 and \$12,000, respectively, and is reflected on the statement of functional expenses.

8. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, OARC has evaluated subsequent events through April 21, 2014, the date the financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which need to be disclosed.