



DNS-OARC

Domain Name System Operations Analysis and Research Center

**OARC,
INC.**

Financial Statements

For the Years Ended

December 31, 2017 and 2016

With Independent Auditors' Report Thereon

OARC, INC.

(A Delaware Not-For-Profit Corporation)
December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors
OARC, Inc.**

We have audited the accompanying financial statements of OARC, Inc. (a California nonprofit corporation) which comprise the statements of financial position as of December 31, 2017 and 2016 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, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

1st Draft

Danville, California
July 19, 2018

OARC, INC.

**Statements of Financial Position
December 31, 2017 and 2016**

ASSETS

	2017	2016
Current assets:		
Cash and cash equivalents	\$ 341,218	\$ 293,160
Accounts receivable, net	12,000	32,500
Total current assets	<u>353,218</u>	<u>325,660</u>
Property and equipment, net	<u>26,892</u>	<u>34,232</u>
	<u>\$ 380,110</u>	<u>\$ 359,892</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and other accruals	\$ 82,841	\$ 54,840
Deferred revenue	281,612	289,139
	<u>364,453</u>	<u>343,979</u>
Net assets:		
Unrestricted	(4,343)	15,913
Temporarily restricted	20,000	-
Total net assets	<u>15,657</u>	<u>15,913</u>
	<u>\$ 380,110</u>	<u>\$ 359,892</u>

OARC, INC.

**Statements of Activities and Changes in Net Assets
Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Changes in unrestricted net assets:</i>		
Revenue and support:		
Membership fees	\$ 569,777	\$ 506,184
Non-member registration fees	13,520	12,170
Donations and grants	101,500	90,000
In kind donations	49,000	-
Other revenue	6,741	19,841
Total revenue and support	740,538	628,195
Operating expenses:		
Program	642,448	681,479
General and administrative	118,346	45,843
Fundraising	-	-
Total operating expenses	760,794	727,322
Decrease in unrestricted net assets	(20,256)	(99,127)
<i>Changes in temporarily restricted net assets:</i>		
Grants and contributions	20,000	-
Increase in temporarily restricted net assets	20,000	-
Decrease in net assets	(256)	(99,127)
Net assets at beginning of year	15,913	115,040
Net assets at end of year	\$ 15,657	\$ 15,913

OARC, INC.

**Statements of Cash Flows
Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Operating activities:</i>		
Decrease in net assets	\$ (256)	\$ (99,127)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation and amortization	21,574	43,169
Changes in:		
Accounts receivable, net	20,500	(9,000)
Accounts payable and accrued liabilities	28,001	39,631
Deferred revenue	(7,527)	41,417
Cash provided by operating activities	<u>62,292</u>	<u>16,090</u>
<i>Investing activities:</i>		
Acquisition of property and equipment	(14,234)	(26,057)
Cash used for investing activities	<u>(14,234)</u>	<u>(26,057)</u>
Increase (decrease) in cash and cash equivalents	48,058	(9,967)
Cash and cash equivalents at beginning of year	<u>293,160</u>	<u>303,127</u>
Cash and cash equivalents at end of year	<u>\$ 341,218</u>	<u>\$ 293,160</u>
<i>Additional cash flow information:</i>		
Interest paid	\$ -	\$ -
Tax registration fees	<u>\$ 100</u>	<u>\$ 100</u>

OARC, INC.

**Statement of Functional Expenses
Year Ended December 31, 2017**

	General & Admin- istrative	Fund Raising	2017 Totals	
	Programs			
Bank charges and other fees	\$ -	\$ 1,484	\$ -	\$ 1,484
Conferences and meetings	93,368	-	-	93,368
Connectivity	26,400	-	-	26,400
Depreciation and amortization	18,338	3,236	-	21,574
Office and other	6,382	4,255	-	10,637
Postage and shipping	-	292	-	292
Professional and consulting	415,684	94,560	-	510,244
Occupancy	6,664	1,176	-	7,840
Telephone and telecommunications	994	175	-	1,169
Travel and related expenses	74,618	13,168	-	87,786
Totals	\$ 642,448	\$ 118,346	\$ -	\$ 760,794

OARC, INC.

**Statement of Functional Expenses
Year Ended December 31, 2016**

	Programs	General & Admin- istrative	Fund Raising	Totals
Bank charges and other fees	\$ -	\$ 916	\$ -	\$ 916
Conferences and meetings	87,718	-	-	87,718
Connectivity	21,502	-	-	21,502
Depreciation and amortization	36,694	6,475	-	43,169
Office and other	10,973	7,316	-	18,289
Postage and shipping	-	2,589	-	2,589
Professional and consulting	460,903	17,307	-	478,210
Occupancy	3,502	618	-	4,120
Telephone and telecommunications	1,358	240	-	1,598
Travel and related expenses	58,829	10,382	-	69,211
Totals	\$ 681,479	\$ 45,843	\$ -	\$ 727,322

Notes to Financial Statements
December 31, 2017 and 2016

1. Organization

OARC, Inc. (OARC) 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 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.

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.

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

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, 2017 and 2016.

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, 2017 and 2016.

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

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 \$49,000 and \$0 of in-kind contributions during the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016, 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 \$341,218 and \$293,160 at December 31, 2017 and 2016, respectively, consist of funds on deposit in a checking account at a local financial institution.

4. Accounts Receivable

Accounts receivable of \$12,000 and \$32,500 at December 31, 2017 and 2016, respectively, are due within one year from various third parties. OARC uses the direct write-off method with regards to receivables deemed uncollectible. During the years ended December 31, 2017 and 2016, OARC recognized no such bad debts. Management has evaluated the receivables as of December 31, 2017 and determined that such amounts are fully collectible based on the financial strength of the parties involved.

5. Property and Equipment

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

	2017	2016
Computers and related equipment	\$ 200,767	\$ 186,533
Less accumulated depreciation	(173,875)	(152,301)
Total property and equipment, net	<u>\$ 26,892</u>	<u>\$ 34,232</u>

Total depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$21,574 and \$43,169, respectively.

6. Deferred Revenue

Deferred revenue of \$281,612 and \$289,139 at December 31, 2017 and 2016, 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

During the years ended December 31, 2017 and 2016, OARC leased office space under a month-to-month operating agreement. Occupancy expense for the years ended December 31, 2017 and 2016 amounted to \$7,840 and \$4,120, respectively, and is reflected on the statements of functional expenses.

Notes to Financial Statements

8. Temporarily Restricted Net Assets

OARC recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. At December 31, 2017, OARC had \$20,000 in temporarily restricted net assets that were restricted for a future project. There were no temporarily restricted net assets at December 31, 2016. No assets were released from restrictions during the years ended December 31, 2017 and 2016.

9. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future projects, which are not reflected in the combined financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate OARC to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond OARC's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

10. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, OARC has evaluated subsequent events through July 19, 2018, 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.