DNS-OARC
Domain Name System Operations Analysis and Research Center

OARC, Inc.

Financial Statements

For the Years Ended

December 31, 2018 and 2017

With Independent Auditors' Report Thereon

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

OARC, INC.

(A Delaware Not-For-Profit Corporation)
December 31, 2018 and 2017

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OARC, INC.

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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, 2018 and 2017 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, 2018 and 2017 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.

Regalia & Associates

Danville, California
July 11, 2019

OARC, INC.

Statements of Financial Position
December 31, 2018 and 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	$ 312,701	$ 341,218
Accounts receivable	34,500	12,000
Total current assets	347,201	353,218
Property and equipment, net	25,748	26,892
	$ 372,949	$ 380,110

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities:		
Accounts payable and other accruals	$ 65,780	$ 82,841
Deferred revenue	287,778	281,612
Total current liabilities	353,558	364,453
Net assets:		
Without donor restrictions	19,391	(4,343)
With donor restrictions	-	20,000
Total net assets	19,391	15,657
	$ 372,949	$ 380,110

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Changes in net assets without donor restrictions:		
Revenue and support:		
Membership fees	$ **594,334**	$ 569,777
Registration fees	**58,361**	13,520
Donations and grants	**85,200**	101,500
In kind donations	**8,300**	49,000
Other revenue	**7,870**	6,741
Net assets released from restrictions	**20,000**	-
Total revenue and support	**774,065**	**740,538**
Operating expenses:		
Program	**538,912**	642,448
General and administrative	**211,419**	118,346
Fundraising	**-**	-
Total operating expenses	**750,331**	760,794
Increase (decrease) in net assets without donor restrictions	**23,734**	(20,256)
Changes in net assets with donor restrictions:		
Grants and contributions	**-**	20,000
Net assets released from restrictions	**(20,000)**	-
Increase (decrease) in net assets with donor restrictions	**(20,000)**	20,000
Increase (decrease) in net assets	**3,734**	(256)
Net assets at beginning of year	**15,657**	15,913
Net assets at end of year	$ **19,391**	$ 15,657

OARC, INC.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

		2018		2017
Operating activities:				
Increase (decrease) in net assets	**$**	**3,734**	$	(256)
Adjustments to reconcile to cash provided by				
(used for) operating activities:				
Depreciation and amortization		**22,082**		21,574
Changes in:				
Accounts receivable		**(22,500)**		20,500
Accounts payable and accrued liabilities		**(17,061)**		28,001
Deferred revenue		**6,166**		(7,527)
Cash provided by (used for) operating activities		**(7,579)**		62,292
Investing activities:				
Acquisition of property and equipment		**(20,938)**		(14,234)
Cash used for investing activities		**(20,938)**		(14,234)
Increase (decrease) in cash and cash equivalents		**(28,517)**		48,058
Cash and cash equivalents at beginning of year		**341,218**		293,160
Cash and cash equivalents at end of year	**$**	**312,701**	$	341,218
Additional cash flow information:				
Interest paid	**$**	**-**	$	-
Tax registration fees	**$**	**100**	$	100

Statement of Functional Expenses
Year Ended December 31, 2018

	Programs	General & Admin-istrative	Fund Raising	2018 Totals
Bank charges and other fees	$ -	$ 957	$ -	**$ 957**
Conferences and meetings	94,911	-	-	**94,911**
Connectivity	24,515	-	-	**24,515**
Depreciation and amortization	18,770	3,312	-	**22,082**
Office and other	7,651	3,724	-	**11,375**
Postage and shipping	-	289	-	**289**
Professional and consulting	330,268	187,063	-	**517,331**
Occupancy	3,370	5,056	-	**8,426**
Telephone and telecommunications	401	602	-	**1,003**
Travel and related expenses	59,026	10,416	-	**69,442**
Totals	$ 538,912	$ 211,419	$ -	**$ 750,331**

Statement of Functional Expenses
Year Ended December 31, 2017

	Programs	General & Administrative	Fund Raising	Totals
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**

Notes to Financial Statements
December 31, 2018 and 2017

1. Organization

OARC, Inc. (OARC) is a 501(c)(3) nonprofit public benefit corporation incorporated in the state of Delaware, with an office 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 presentation –The financial statements of OARC have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of operations – The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to OARC's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

Cash and cash equivalents – OARC's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentrations of credit risk – Financial instruments that potentially subject OARC to concentrations of credit risk consist principally of cash and cash equivalents and deposits. OARC maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. OARC manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, OARC has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations supportive of OARC's mission.

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

Accounts and Contributions Receivable - OARC records contributions receivable that are expected to be collected within one year at net realizable value. When material, contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

In subsequent years, amortization of the discounts (when applicable) will be included in contribution revenue in the statement of activities. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

Receivables and Credit Policies - OARC determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

Property and Equipment – OARC's policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets.

Costs of maintenance and repairs are expensed currently. OARC reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. OARC has determined that no long-lived assets were impaired during the year ended December 31, 2018.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). OARC groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

<u>Level 1</u>
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

(continued)

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

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment, but it has opted not to do so as of December 31, 2018.

Net Assets With Donor Restrictions
Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Notes to Financial Statements

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

Revenue and Revenue Recognition - Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Membership fees received in advance are deferred to the applicable period in which the related services are performed.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Donated Services and In-Kind Contributions - 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 received in-kind donations of $8,300 and $49,000 for the years ended December 31, 2018 and 2017, respectively. Such amounts, which are based upon information provided by third-party providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and related expenses on the accompanying statement of activities and statements of functional expenses.

Volunteers contribute significant amounts of time to OARC's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as professional and consulting, occupancy, and other overhead) have been allocated based on time and effort. Other direct costs have been allocated in accordance with the specific services received from vendors.

Income Taxes - OARC is organized as California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. OARC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

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Notes to Financial Statements

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

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. The exemptions are 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.

Recent and Relevant Accounting Pronouncements – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017:

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. OARC has adjusted the presentation of these statements accordingly.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of July 11, 2019 (the date of the Independent Auditors' Report), OARC's management has made this evaluation and has determined that OARC has the ability to continue as a going concern.

3. Cash and Cash Equivalents

Cash and cash equivalents of $312,701 and $341,218 at December 31, 2018 and 2017, respectively, consist of funds on deposit in non-interest bearing checking accounts. 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.

4. Accounts Receivable

Accounts receivable of $34,500 and $12,000 at December 31, 2018 and 2017, 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, 2018 and 2017, OARC recognized no such bad debts. Management has evaluated the receivables as of December 31, 2018 and determined that such amounts are fully collectible based on the financial strength of the parties involved.

Notes to Financial Statements

5. Property and Equipment

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

	2018	2017
Computers and related equipment	$ **221,705**	$ 200,767
Less accumulated depreciation	**(195,957)**	(173,875)
Total property and equipment, net	$ **25,748**	$ 26,892

Total depreciation expense for the years ended December 31, 2018 and 2017 amounted to $22,082 and $21,574, respectively.

6. Liquidity

OARC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. OARC has various sources of liquidity at its disposal, including cash and cash equivalents, access to potential lines of credit (if necessary), and other sources (including the future collection of receivables).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, OARC considers all expenditures related to its ongoing member support and related activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, OARC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of OARC's cash.

The following table shows the total financial assets held by OARC and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 312,701
Accounts receivable	34,500
Financial assets available to meet general expenditures over the next twelve months	$ 347,201

As part of OARC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. OARC's goal is generally to maintain financial assets to meet four to six months of operating expenses.

Notes to Financial Statements

7. Deferred Revenue

Deferred revenue of $287,778 and $281,612 at December 31, 2018 and 2017, 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.

8. Lease Commitment

During the years ended December 31, 2018 and 2017, OARC leased office space under a month-to-month operating agreement. Occupancy expense for the years ended December 31, 2018 and 2017 amounted to $8,426 and $7,840, respectively, and is reflected on the statements of functional expenses.

9. Net Assets with Donor Restrictions

OARC recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expired. At December 31, 2017, OARC had $20,000 in net assets that were restricted for a future project. There were no net assets with donor restrictions at December 31, 2018. During the year ended December 31, 2018, OARC released $20,000 from net assets with donor restrictions to net assets without donor restrictions.

10. 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 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.

11. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, OARC has evaluated subsequent events through July 11, 2019, 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.