



## **AMATEUR RADIO DIGITAL COMMUNICATIONS**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

## AMATEUR RADIO DIGITAL COMMUNICATIONS

Contents  
December 31, 2019

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## Independent Auditor's Report

To the Board of Directors of  
Amateur Radio Digital Communications:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Amateur Radio Digital Communications (a California corporation, not for profit), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

### ***Auditor's 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 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 Amateur Radio Digital Communications as of December 31, 2019, 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.

*AAFCPA, Inc.*

Westborough, Massachusetts  
July 31, 2020

## AMATEUR RADIO DIGITAL COMMUNICATIONS

### Statement of Financial Position

December 31, 2019

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#### **Assets**

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##### Current Assets:

Cash	\$ 127,478
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Investments - Government Money Market Funds	<u>109,003,070</u>
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Total assets	<u><u>\$ 109,130,548</u></u>
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#### **Net Assets**

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Net Assets Without Donor Restrictions	<u><u>\$ 109,130,548</u></u>
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## AMATEUR RADIO DIGITAL COMMUNICATIONS

### Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2019

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**Revenues:**

Gain on sale of intellectual property, net	\$ 108,506,644
Interest income	781,441
Grants and contributions	<u>921</u>
Total revenues	<u>109,289,006</u>

**Expenses:**

Program	131,179
Management and general	<u>19,423</u>
Total expenses	<u>150,602</u>

Change in net assets without donor restrictions	109,138,404
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**Net Assets Without Donor Restrictions:**

Beginning of year	<u>(7,856)</u>
End of year	<u><u>\$ 109,130,548</u></u>

## AMATEUR RADIO DIGITAL COMMUNICATIONS

### Statement of Cash Flows

For the Year Ended December 31, 2019

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#### **Cash Flows from Operating Activities:**

Change in net assets without donor restrictions	\$ 109,138,404
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:	
Gain on sale of intellectual property	(108,506,644)
Changes in operating assets and liabilities:	
Accounts payable and accrued expenses	<u>(6,685)</u>
Net cash provided by operating activities	<u>625,075</u>

#### **Cash Flows from Investing Activities:**

Purchase of investments	<u>(109,003,070)</u>
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#### **Cash Flows from Financing Activities:**

Principal payment of note payable	(15,000)
Proceeds from gain on sale of intellectual property	<u>108,506,644</u>
Net cash provided by financing activities	<u>108,491,644</u>

<b>Net Change in Cash</b>	<b>113,649</b>
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#### **Cash:**

Beginning of year	<u>13,829</u>
End of year	<u><u>\$ 127,478</u></u>

## AMATEUR RADIO DIGITAL COMMUNICATIONS

### Statement of Functional Expenses For the Year Ended December 31, 2019

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	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Grants	\$ 120,000	\$ -	\$ 120,000
Legal and accounting	-	19,423	19,423
Travel and meetings	5,100	-	5,100
Other	4,875	-	4,875
Office expenses	1,204	-	1,204
	<u>\$ 131,179</u>	<u>\$ 19,423</u>	<u>\$ 150,602</u>

## AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements  
December 31, 2019

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### 1. OPERATIONS AND NONPROFIT STATUS

#### Operations

Amateur Radio Digital Communications (ARDC) was established as a nonprofit public benefit California corporation in 2011 to encourage and support research regarding amateur radio, computer networking and related topics. Prior to 2011, ARDC had operated as an unincorporated association of amateur ("ham" radio operators). ARDC furthers the goals of amateur radio by allocating network resources (see Note 3), publishing technical articles, and participating in activities to promote the public good of amateur radio digital communications and related fields.

#### Nonprofit Status

ARDC is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (the Code). Donors may deduct contributions made to ARDC within the requirements of the Code. ARDC is also exempt from California income tax under California Revenue and Taxation Code Section 23701.

### 2. SIGNIFICANT ACCOUNTING POLICIES

ARDC prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### Adoption of New Accounting Standards

During 2019, ARDC adopted FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with respect to its revenue recognition policies. The core principle of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As a result of the adoption of Topic 606, disclosures related to revenue recognition have been enhanced. As a result of the adoption, the 2018 financial statements were not restated and there was no cumulative-effect adjustment to opening net assets as of January 1, 2019.

In addition, during 2019, ARDC adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. ARDC adopted ASU 2018-08 using a modified prospective method effective January 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of January 1, 2019. As a result of the adoption, the 2018 financial statements were not restated and there was no cumulative-effect adjustment to opening net assets as of January 1, 2019.

#### Cash

Cash consists of a checking account. ARDC considers all highly liquid short-term investments purchased with an initial maturity of three months or less to be cash and equivalents.

#### Investments

ARDC records its investments at fair value. Interest is recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period (see Note 4).



## AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements  
December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets

Net assets without donor restrictions bear no external restrictions and are generally available for use by ARDC. The ARDC board has designated substantially all net assets without donor restrictions as a board designated endowment.

#### Revenue Recognition

ARDC generally measures revenue from qualifying exchange transactions based on the amount of consideration ARDC expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as ARDC satisfies their performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. ARDC evaluates their revenue contracts with customers based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied. ARDC had no qualifying exchange transactions in 2019.

Grants and contributions may either be conditional or unconditional. Grants and contributions are considered conditional when the donor imposes both a barrier and a right of return. Conditional awards are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity, and other stipulations related to the grant or contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event ARDC fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances. Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged.

Interest income is recorded as earned.

#### Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program and support service are reported directly according to their natural expenditure classification. Certain costs have been allocated among program and general and administrative services benefited on the basis of time and effort.

#### Grant Expense

ARDC makes grants to other organizations that work in the amateur radio field and had grant expense of \$120,000 for the year ended December 31, 2019, which is reflected as grants in the accompanying statement of functional expenses. Grant awards are reported as an expense when all significant conditions are met. During 2019, one grant accounted for approximately 92% of the total grants made by ARDC.

#### Donated Services

ARDC receives services of volunteers. The value of these services is not reflected in the accompanying financial statements since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria recognition of *Accounting for Contributions Received and Contributions Made* standards.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements**

ARDC follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that ARDC would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

ARDC uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of ARDC. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

**Income Taxes**

ARDC accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. ARDC has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2019. ARDC's information returns are subject to examination by the Federal and state jurisdictions.

## AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements  
December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Subsequent Events

Subsequent events have been evaluated through July 31, 2020, which is the date the financial statements were available to be issued. See Notes 4 and 7 for events that met the criteria for disclosure.

### 3. INTELLECTUAL PROPERTY AND SALE

To date, ARDC has supported a network of amateur radio operators by making available and administering a block of 16,777,216 internet protocol (IPv4) addresses with which the amateur radio operators communicate, experiment and research technologies without charge by ARDC. These addresses were acquired in 1981 at no charge from a U.S. federal contractor overseeing the creation of the internet. At the time of receipt, there was no discernible market value for the IPv4 addresses and, accordingly, they are carried at no value on ARDC's statement of financial position.

IPv4 addresses are fixed-size (32-bit) numeric identifiers, so the supply of them is finite. With widespread development of the internet, demand for these addresses grew, and eventually their scarcity led to pressure to buy and sell them. The first sale of IPv4 addresses occurred in 2011. In 2019, ARDC elected to sell, on a one-time basis, one quarter of its IPv4 addresses to a large internet company, yielding \$109,051,904 of proceeds. The gain from the sale was recognized upon transfer of the IPv4 addresses and is shown as revenue in the accompanying statement of activities and changes in net assets. This gain is reported net of a broker commission of \$545,260. It accounted for approximately 99% of ARDC's total revenue for the year ended December 31, 2019.

ARDC intends to use the proceeds of the sale for grant making and other activity to support the fields of amateur radio and digital communications, in line with its mission statement. The Board designated the proceeds of the sale as a board designated endowment. The remaining IPv4 addresses owned by ARDC continue to be available to amateur radio operators.

### 4. INVESTMENTS

Investments consist entirely of Federal cash reserves and money market funds and are valued using Level 1 inputs (see page 8). ARDC generally intends to hold the investments long-term. Accordingly, the investments are shown as long-term assets in the accompanying statement of financial position regardless of maturity.

In early 2020, ARDC implemented an investment policy in which there are two components:

- **Cash Pool** - The investment objective of the cash pool is to maintain the value and liquidity of funds by investing in cash and near cash investments such as money market funds, US treasury securities, bank certificates of deposit, and such other investments of this type that the Investment Committee shall select. The credit quality of these investments shall be high and the maturities shall be short term. Since this strategy is useful for funds that may be dispersed in the near term, the liquidity of this strategy shall be a prime objective. A minimum balance for the cash pool shall be three years' projected expenses for ARDC.
- **Long-Term Pool** - The investment objective of the long-term pool is to provide for a disciplined longer-term and higher risk and return investment program that is consistent with the needs of longer horizon nonprofit funds. Careful management of the long-term pool is designed to ensure a total return (income plus capital change minus costs and fees) necessary to preserve and enhance (in real dollar terms) the principal, and at the same time, to provide a dependable source of monies for current operations and programs of ARDC. The long-term pool generally holds listed domestic and global equity securities, domestic and global fixed income securities, and cash and cash equivalents.

## AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements  
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### 4. INVESTMENTS (Continued)

#### *Distribution Policy*

Periodically, as required by the activities of ARDC, distributions will be made for ARDC's operations from funds managed within the portfolio. The Investment Committee will set the procedures by which the required funds for distribution are raised within the cash pool, long-term pool, or both to meet such distribution needs.

### 5. CONCENTRATIONS OF CREDIT RISK

ARDC maintains its operating cash balances in one bank in California, which is insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. ARDC has not experienced any losses in such accounts. ARDC is not exposed to any significant credit risk on its operating cash balance as of December 31, 2019.

ARDC also has a portfolio of investments, which is not insured and is subject to market fluctuations.

### 6. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

All financial assets are available for general operating use within one year of the statement of financial position date as of December 31, 2019. In 2020, ARDC implemented an investment policy of which approximately 15% of investments will be kept in the cash pool for operating expenses with the remainder invested for long-term uses.

### 7. SUBSEQUENT EVENT

In March 2020, the COVID-19 coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on ARDC, its operations, investment returns and future financial statements. The accompanying financial statements have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

The Board of Directors is monitoring these events closely to assess the potential impact of the situation and determine appropriate courses of action. As of the date of this report, ARDC is unable to predict how COVID-19 will affect the results of its operations because pandemic's severity and the duration of the outbreak are uncertain.