



AMATEUR RADIO DIGITAL COMMUNICATIONS

**FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

AMATEUR RADIO DIGITAL COMMUNICATIONS

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December 31, 2020 and 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 statements of financial position as of December 31, 2020 and 2019, 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 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
September 24, 2021

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Financial Position
December 31, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash	\$ 21,104	\$ 127,478
Investments	<u>128,391,262</u>	<u>109,003,070</u>
Total assets	<u>\$ 128,412,366</u>	<u>\$ 109,130,548</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 276,591	\$ -
Deferred Excise Taxes	<u>277,422</u>	<u>-</u>
Total liabilities	554,013	-
Net Assets Without Donor Restrictions	<u>127,858,353</u>	<u>109,130,548</u>
Total liabilities and net assets	<u>\$ 128,412,366</u>	<u>\$ 109,130,548</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Investment income, net	\$ 22,385,039	\$ 781,441
Gain on sale of intellectual property, net	-	108,506,644
Grants and contributions	-	921
	<hr/>	<hr/>
Total revenues	22,385,039	109,289,006
	<hr/>	<hr/>
Expenses:		
Program	3,199,814	131,179
Management and general	457,420	19,423
	<hr/>	<hr/>
Total expenses	3,657,234	150,602
	<hr/>	<hr/>
Change in net assets without donor restrictions	18,727,805	109,138,404
	<hr/>	<hr/>
Net Assets Without Donor Restrictions:		
Beginning of year	109,130,548	(7,856)
	<hr/>	<hr/>
End of year	\$ 127,858,353	\$ 109,130,548
	<hr/>	<hr/>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets without donor restrictions	\$ 18,727,805	\$ 109,138,404
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Unrealized gains on investments	(19,958,405)	-
Deferred excise taxes	277,422	-
Gain on sale of intellectual property	-	(108,506,644)
Changes in operating liabilities:		
Accounts payable and accrued expenses	276,591	(6,685)
Net cash provided by (used in) operating activities	<u>(676,587)</u>	<u>625,075</u>
Cash Flows from Investing Activities:		
Proceeds from investments	1,686,072	-
Purchase of investments	<u>(1,115,859)</u>	<u>(109,003,070)</u>
Net cash provided by (used in) investing activities	<u>570,213</u>	<u>(109,003,070)</u>
Cash Flows from Financing Activities:		
Principal payment of note payable	-	(15,000)
Proceeds from gain on sale of intellectual property	<u>-</u>	<u>108,506,644</u>
Net cash provided by financing activities	<u>-</u>	<u>108,491,644</u>
Net Change in Cash	(106,374)	113,649
Cash:		
Beginning of year	<u>127,478</u>	<u>13,829</u>
End of year	<u>\$ 21,104</u>	<u>\$ 127,478</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Functional Expenses

For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Program	Management and General	Total	Program	Management and General	Total
Grants	\$ 3,155,532	\$ -	\$ 3,155,532	\$ 120,000	\$ -	\$ 120,000
Excise tax	-	311,152	311,152	-	-	-
Office expenses	-	112,360	112,360	1,204	-	1,204
Salaries and related	30,199	10,066	40,265	-	-	-
Legal and accounting	-	23,842	23,842	-	19,423	19,423
Other	14,083	-	14,083	9,975	-	9,975
	<u>\$ 3,199,814</u>	<u>\$ 457,420</u>	<u>\$ 3,657,234</u>	<u>\$ 131,179</u>	<u>\$ 19,423</u>	<u>\$ 150,602</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2020 and 2019

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 qualified as an organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Effective, January 1, 2020, ARDC operates as a private foundation subject to an excise tax on net investment income, as defined under Section 4942(j)(3) of the IRC. Prior to that, ARDC operated as a public charity. ARDC is also exempt from California income tax under California Revenue and Taxation Code Section 23701. Donors can deduct contributions made to the Foundation within the requirements of the IRC.

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).

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 equivalents.

Investments

ARDC records its investments at fair value. Investment income includes interest and dividends, as well as realized and unrealized gains and losses. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period (see Note 4). Investment income is presented net of investment-related fees and expenses.

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.

Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the accompanying statements 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.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Expense

ARDC makes grants to other organizations that work in the amateur radio field and had grant expenses of \$3,155,532 and \$120,000 for the years ended December 31, 2020 and 2019, respectively, which is reflected as grants in the accompanying statements of functional expenses. Grant awards are reported as an expense when all significant conditions are met.

Conditional awards are recognized as expense 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. ARDC has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the recipient organization fails to overcome one or more barriers. Assets transferred before the barrier is overcome are accounted for as advances receivable. Grants and contributions without donor restrictions are recorded as expense when transferred or unconditionally pledged.

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.

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. Cash and investments are shown at fair value.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2020 and 2019

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.

Income Taxes

ARDC incurred current obligations for Federal excise taxes of \$33,730 arising from net investment earnings, excluding unrealized gains and losses, for the year ended December 31, 2020. ARDC did not incur any Federal excise taxes for the year ended December 31, 2019. ARDC's current excise tax obligation for the year ended December 31, 2020, was calculated using the statutory rate of 1.39%.

ARDC records deferred excise taxes related to its future excise tax liability for accumulated unrealized appreciation on investments (see Note 3). Such appreciation represents investment gains which are not recognized for excise tax purposes until the investments are sold and the gains are realized. The deferred excise tax liability was \$277,422 at December 31, 2020. There was no deferred tax liability at December 31, 2019. The deferred excise tax liability as of December 31, 2020, was computed using the newly-enacted rate of 1.39%. The components of the excise tax expense (benefit) are as follows for the year ended December 31, 2020:

Current	\$ 33,730
Deferred	<u>277,422</u>
Total excise tax liability	<u>\$ 311,152</u>

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, 2020 and 2019. ARDC's returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through September 24, 2021, which is the date the financial statements were available to be issued. There were no events that met the criteria for disclosure.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2020 and 2019

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 statements 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 in 2019.

ARDC intends to use the proceeds of the sale for grantmaking 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

ARDC generally intends to hold the investments long-term. Accordingly, the investments are shown as long-term assets in the accompanying statements 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, U.S. 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 of 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.

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.

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Notes to Financial Statements
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4. INVESTMENTS (Continued)

The balances of these investments, which are stated at fair value in the accompanying statements of financial position, are as follows, by level within the valuation framework (see Note 2), as of December 31:

	2020			
	Level 1	Level 2	Level 3	Total
Cash Pool:				
Money market	\$ 13,911,861	\$ -	\$ -	\$ 13,911,861
Long-Term Pool:				
Mutual funds - domestic	7,153,165	-	-	7,153,165
Mutual funds - international	12,816,913	-	-	12,816,913
Exchange traded funds	94,509,323	-	-	94,509,323
Total long-term pool	114,479,401	-	-	114,479,401
	<u>\$ 128,391,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,391,262</u>
	2019			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,006,113	\$ -	\$ -	\$ 1,006,113
Government money market	107,996,957	-	-	107,996,957
	<u>\$ 109,003,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,003,070</u>

The following schedule summarizes the investment income in ARDC's statements of activities for the years ended December 31:

	2020	2019
Unrealized gains	\$ 19,958,405	\$ -
Interest and dividends	1,870,068	781,441
Realized gains	556,566	-
	<u>\$ 22,385,039</u>	<u>\$ 781,441</u>

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, 2020.

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, 2020. In 2020, ARDC implemented an investment policy (see Note 4) of which approximately 15% of investments will be kept in the cash pool for operating expenses with the remainder invested for long-term uses.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2020 and 2019

7. CONTINGENCY

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.