



AMATEUR RADIO DIGITAL COMMUNICATIONS

**FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

AMATEUR RADIO DIGITAL COMMUNICATIONS

Contents
December 31, 2021 and 2020

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 11

Independent Auditor's Report

To the Board of Directors of
Amateur Radio Digital Communications:

Opinion

We have audited the financial statements of Amateur Radio Digital Communications (a California nonprofit corporation) (ARDC), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Amateur Radio Digital Communications as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ARDC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about ARDC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ARDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about ARDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
October 13, 2022

AMATEUR RADIO DIGITAL COMMUNICATIONSStatements of Financial Position
December 31, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash	\$ 146,039	\$ 21,104
Investments	<u>138,884,623</u>	<u>128,391,262</u>
Total assets	<u>\$ 139,030,662</u>	<u>\$ 128,412,366</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 82,667	\$ 75,684
Grants payable	<u>2,753,296</u>	<u>200,907</u>
Total current liabilities	2,835,963	276,591
Deferred Excise Taxes	<u>517,991</u>	<u>277,422</u>
Total liabilities	3,353,954	554,013
Net Assets Without Donor Restrictions	<u>135,676,708</u>	<u>127,858,353</u>
Total liabilities and net assets	<u>\$ 139,030,662</u>	<u>\$ 128,412,366</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Investment income, net	\$ 19,399,488	\$ 22,385,039
Expenses:		
Program	11,107,393	3,199,814
Management and general	473,740	457,420
Total expenses	<u>11,581,133</u>	<u>3,657,234</u>
Change in net assets without donor restrictions	7,818,355	18,727,805
Net Assets Without Donor Restrictions:		
Beginning of year	<u>127,858,353</u>	<u>109,130,548</u>
End of year	<u>\$ 135,676,708</u>	<u>\$ 127,858,353</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets without donor restrictions	\$ 7,818,355	\$ 18,727,805
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Unrealized and realized gains on investments	(17,304,391)	(20,514,971)
Deferred excise taxes	240,569	277,422
Changes in operating liabilities:		
Accounts payable and accrued expenses	6,983	75,684
Grants payable	2,552,389	200,907
Net cash used in operating activities	<u>(6,686,095)</u>	<u>(1,233,153)</u>
Cash Flows from Investing Activities:		
Investment transfers	8,508,077	1,686,072
Dividends reinvested	<u>(1,697,047)</u>	<u>(559,293)</u>
Net cash provided by investing activities	<u>6,811,030</u>	<u>1,126,779</u>
Net Change in Cash	124,935	(106,374)
Cash:		
Beginning of year	<u>21,104</u>	<u>127,478</u>
End of year	<u>\$ 146,039</u>	<u>\$ 21,104</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	<u>\$ 59,050</u>	<u>\$ -</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Statements of Functional Expenses

For the Years Ended December 31, 2021 and 2020

	2021			2020		
	Program	Management and General	Total	Program	Management and General	Total
Grants	\$ 10,798,573	\$ -	\$ 10,798,573	\$ 3,155,532	\$ -	\$ 3,155,532
Excise tax	-	269,691	269,691	-	311,152	311,152
Salaries and related	114,797	155,109	269,906	30,199	10,066	40,265
Office expenses	101,413	25,197	126,610	-	88,110	88,110
Other	92,610	-	92,610	14,083	-	14,083
Legal and accounting	-	23,743	23,743	-	48,092	48,092
	<u>\$ 11,107,393</u>	<u>\$ 473,740</u>	<u>\$ 11,581,133</u>	<u>\$ 3,199,814</u>	<u>\$ 457,420</u>	<u>\$ 3,657,234</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

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.

ARDC provides stewardship for invested funds (see Note 4) that provide resources for the charitable mission of ARDC. The assets and income from these funds support an array of activities that support ARDC's present and future mission. The primary goals of ARDC for the investment of the portfolio are as follows:

- Preservation of capital with appropriate liquidity.
- Sufficient growth of capital to offset the effects of inflation and provide for future needs.
- Improved ability to realize the philanthropic goals of ARDC.

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. The IRC imposes an excise tax on private foundations of 1.39% of the net investment income (principally interest, dividends, and net realized gains, less expenses incurred on the production of investment income). ARDC is also subject to IRC regulations governing required minimum expenditures for charitable purposes. 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 ARDC 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 multiple checking accounts.

Investments

Investments consist of ARDC's portfolio of marketable securities (see Note 4) which are reported at fair value (see page 7) in the accompanying financial statements.

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.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

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.

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 are reported directly according to their natural expenditure classification. Certain costs have been allocated among program and management and general services benefited on the basis of time and effort.

Grant Expense

ARDC makes grants to other organizations that operate in the amateur radio and digital communications field and are recorded as grant expense once the Board of Directors approves the grant and all significant conditions are met. ARDC recognized grants totaling \$10,798,573 and \$3,155,532 for the years ended December 31, 2021 and 2020, respectively, and are reflected as grants in the accompanying statements of functional expenses.

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 without donor restrictions are recorded as expense when transferred or unconditionally pledged. All grants payable are expected to be paid in the year following the statement of financial position date.

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 recognition criteria of *Accounting for Contributions Received and Contributions Made* standards.

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.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Investments (see Note 4) are shown at fair value.

Income Taxes

ARDC incurred current obligations for Federal excise taxes of \$29,122 and \$33,730 arising from net investment earnings, excluding unrealized gains and losses, for the years ended December 31, 2021 and 2020, respectively. ARDC's current excise tax obligation for the years ended December 31, 2021 and 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 4). 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 \$517,991 and \$277,422 at December 31, 2021 and 2020, respectively. The deferred excise tax liability as of December 31, 2021 and 2020, was computed using the statutory rate of 1.39%. The components of excise tax expense are as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Current	\$ 29,122	\$ 33,730
Deferred	<u>240,569</u>	<u>277,422</u>
Total excise tax liability	<u>\$ 269,691</u>	<u>\$ 311,152</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2021 and 2020. ARDC's returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through October 13, 2022, which is the date the financial statements were available to be issued. There were no events that met the criteria for disclosure.

3. INTELLECTUAL PROPERTY

ARDC supports a network of amateur radio operators by making available and administering a block of 12,582,912 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 historical sale for grantmaking and other activity to support the fields of amateur radio and digital communications, in line with its mission statement.

4. INVESTMENTS

ARDC generally intends to hold investments long-term as a base for grantmaking activities. Accordingly, the investments are shown as long-term assets in the accompanying statements of financial position regardless of long-term or short-term purpose. Cash in the investment portfolio is excluded from cash for purposes of the statements of cash flow.

Investment Policy

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 cash equivalent 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 is a prime objective. A minimum balance for the cash pool is three years of projected expenses for ARDC.

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

4. INVESTMENTS (Continued)

Investment Policy (Continued)

- **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 are made for ARDC's operations from funds managed within the portfolio. The Investment Committee sets 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.

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:

	2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Pool:				
Money market	\$ 5,407,107	\$ -	\$ -	\$ 5,407,107
Long-Term Pool:				
Mutual funds - domestic	6,753,936	-	-	6,753,936
Mutual funds - international	14,283,911	-	-	14,283,911
Exchange traded funds	<u>112,439,669</u>	<u>-</u>	<u>-</u>	<u>112,439,669</u>
Total long-term pool	<u>133,477,516</u>	<u>-</u>	<u>-</u>	<u>133,477,516</u>
	<u>\$ 138,884,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,884,623</u>
	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>94,509,323</u>	<u>-</u>	<u>-</u>	<u>94,509,323</u>
Total long-term pool	<u>114,479,401</u>	<u>-</u>	<u>-</u>	<u>114,479,401</u>
	<u>\$ 128,391,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,391,262</u>

AMATEUR RADIO DIGITAL COMMUNICATIONS

Notes to Financial Statements
December 31, 2021 and 2020

4. INVESTMENTS (Continued)

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

	<u>2021</u>	<u>2020</u>
Unrealized gains	\$ 17,304,391	\$ 19,958,405
Interest and dividends	2,095,097	1,870,068
Realized gains	<u>-</u>	<u>556,566</u>
	<u>\$ 19,399,488</u>	<u>\$ 22,385,039</u>

5. CONCENTRATIONS OF CREDIT RISK

ARDC maintains its operating cash balances in two banks, which are both 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, 2021 and 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

Cash financial assets are available for general operating use within one-year of the statements of financial position date as of December 31, 2021 and 2020. As of December 31, 2021 and 2020, ARDC had \$146,039 and \$21,104, respectively, available for operations. In addition, ARDC implemented an investment policy (see Note 4) under which none of the investments are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

7. RELATED PARTY

The Board of Directors and management take actions to ensure that related party transactions, if any, are in compliance with ARDC's conflict of interest policy. The policy requires board members to abstain from votes on grants to any organization with which a board member, officer or spouse of a board member or officer may be related.