

**NANO, INC.**

AUDITED FINANCIAL STATEMENTS

For the Year ended December 31, 2019

# **NANOG, INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
NANOG, INC.  
Ann Arbor, Michigan

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

We have audited the accompanying financial statements of NANOG, INC. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, 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 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.

To the Board of Directors of  
NANOG, INC.  
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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 NANOG, INC. as of December 31, 2019, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*UHY LLP*

Farmington Hills, Michigan  
May 11, 2020

**NANO, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2019**

**ASSETS**

Cash	\$ 1,350,041
Investments	3,770,605
Accounts receivable, net	396,000
Prepaid expenses	126,933
Property and equipment, net	<u>110,667</u>
Total assets	<u>\$ 5,754,246</u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 36,493
Accrued expenses	16,194
Deferred revenue	<u>1,086,446</u>
Total liabilities	<u>1,139,133</u>

**NET ASSETS**

Without donor restrictions	
Undesignated	3,202,566
Designated for future meeting commitments	<u>1,412,547</u>
Total net assets	<u>4,615,113</u>
Total liabilities and net assets	<u>\$ 5,754,246</u>

**NANO, INC.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2019

**OPERATING ACTIVITIES:**  
**REVENUES**

Membership dues	\$ 66,276
Meeting sponsorship	1,864,766
Meeting fees	1,696,627
Other programs income	45,000
Interest and dividend income	113,393
In-kind sponsorship	<u>68,400</u>
Total revenues	<u>3,854,462</u>

**EXPENSES**

Program services expense	
Meetings	2,604,099
Other programs	<u>662,508</u>
Total program expense	3,266,607
Supporting services expense	
Management and general	<u>572,503</u>
Total supporting services expense	572,503
Total expenses	<u>3,839,110</u>
Change in net assets from operating activities	15,352

**NONOPERATING ACTIVITIES:**

Net investment return	<u>202,706</u>
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**CHANGE IN NET ASSETS** **218,058**

**NET ASSETS, Beginning** 4,397,055

**NET ASSETS, Ending** \$ 4,615,113

**NANO, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2019**

**OPERATING ACTIVITIES**

Change in net assets	\$ 218,058
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	26,944
Gain on sale of investments	(9,552)
Unrealized gain on investments	(207,336)
Changes in assets and liabilities:	
Accounts receivable	23,516
Prepaid expenses and other assets	(66,308)
Accounts payable	(85,316)
Accrued expenses	3,250
Deferred revenue	(59,904)
	<u>(156,648)</u>
Net cash used in operating activities	<u>(156,648)</u>

**INVESTMENT ACTIVITIES**

Purchases of investments	(1,415,889)
Proceeds from sale of investments	1,331,602
Purchase of plant, property, and equipment	(28,207)
	<u>(112,494)</u>
Net cash used in investment activities	<u>(112,494)</u>

**NET CHANGE IN CASH**

(269,142)

**CASH, Beginning**

1,619,183

**CASH, Ending**

\$ 1,350,041

**NANO, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2019

	<u>Program Services</u>			<u>Supporting Services</u>	<u>Total</u>
	<u>Meetings</u>	<u>Other Programs</u>	<u>Total</u>	<u>Management and General</u>	
Meeting expenses	\$ 2,292,674	\$ -	\$ 2,292,674	\$ -	\$ 2,292,674
Salaries & wages	205,143	402,232	607,375	106,933	714,308
Contract services	106,282	26,487	132,769	34,369	167,138
Other recognized program expenses		232,973	232,973	-	232,973
Professional fees	-	-	-	31,887	31,887
Bank fees	-	-	-	67,157	67,157
Website maintenance	-	-	-	63,056	63,056
Payroll taxes	-	-	-	53,726	53,726
Depreciation and amortization	-	-	-	26,944	26,944
Transportation	-	-	-	59,496	59,496
Equipment	-	-	-	28,654	28,654
Miscellaneous	-	816	816	37,803	38,619
Insurance	-	-	-	33,732	33,732
Retirement benefits	-	-	-	21,684	21,684
Office supplies	-	-	-	1,497	1,497
Education and training	-	-	-	1,785	1,785
Telephone expense	-	-	-	2,152	2,152
Printing	-	-	-	1,628	1,628
Total expenses	<u>\$ 2,604,099</u>	<u>\$ 662,508</u>	<u>\$ 3,266,607</u>	<u>\$ 572,503</u>	<u>\$ 3,839,110</u>

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

NANOG, INC. (the "Organization") is a Delaware nonprofit corporation formed in 2010 to manage the North American Network Operators' Group (NANOG). NANOG is the professional association for internet engineering and architecture. NANOG's focus is on the technologies and systems that make the internet function: core routing and switching; Internet inter-domain routing; the domain name system; peering and interconnection; and Internet core security.

NANOG holds three large meetings a year, as well as various one-day events called NANOG On The Road. NANOG also maintains a website, email list, and meeting archives to distribute information to engineers and operators both national and international, and presents network operational training courses.

**Basis of Presentation**

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Organization follows to ensure they consistently report their financial condition, results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification (ASC)*.

**New Accounting Pronouncement** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Organization adopted the ASU effective January 1, 2019. The adoption of the standard has no impact on the revenue recognition for the year ended 2019.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*. The ASU is intended to enhance the reporting model for financial instruments to provide users of financial instruments with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. Management performed an assessment of the Organization's equity investments determined the adoption of the standard has no impact on the fair value measurements for the year ended 2019.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**Measure of operations**

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing activities and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Cash**

For purposes of the Statement of Cash Flows, cash consists of demand deposits in checking, savings, and brokerage accounts. The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. Cash in excess of federally insured limits approximated \$1,098,717 at December 31, 2019.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Any related gains or losses are included in the change in net assets as they occur. Investment return is presented net of investment fees.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms and are charged off when management determines the receivable will not be collected.

**Property and Equipment**

Property and equipment in excess of \$5,000 are capitalized at cost if purchased or estimated fair value if donated and depreciated or amortized over their estimated useful life, which for the website is five years. Depreciation and amortization are calculated using the straight-line method and amounted to \$26,944 for the year ended December 31, 2019.

	<u>December 31, 2019</u>
Website Development	\$ 161,164
Computers and Electronics	<u>89,900</u>
Total cost	251,064
Less: Accumulated depreciation and amortization	<u>(140,397)</u>
Net carrying amount	<u><u>\$ 110,667</u></u>

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**REVENUE RECOGNITION FOR CONTRACTS WITH CUSTOMERS**

The Organization's revenue streams under contracts with customers are comprised of meeting sponsorship, membership dues, meeting fees and in-kind sponsorship. For each revenue stream identified above, revenue recognition is subject to the completion of performance obligations. The Organization performs an analysis to determine if membership dues, sponsorship agreements or special event tickets constitute separate performance obligations. The Organization's revenue is recognized when a given performance obligation is satisfied, either over a period of time or at a given point in time. The Organization recognizes the revenue over a period of time if the customer receives the benefits that the Organization provided. The revenue is recognized at a given point in time when the control of the goods or service is transferred to the customer and when the customer can direct its use and obtain substantial benefit from the goods. The transaction price is calculated as the amount of consideration to which the Organization expects to be entitled (such as merchant price, event agreements, price of membership and meeting fees set in advance). In some situations (such as meeting fees and meeting sponsorship), the Organization bills customers and collects cash prior to the satisfaction of the performance obligation, which results in the Organization recognizing contract liabilities upon receipt of payment. The following explains the performance obligations related to each revenue stream and how they are recognized.

*Membership Dues* – The Organization earns dues from its members for memberships. Membership dues are earned over the course of one or multiple years, representing the period over which the Organization satisfies the performance obligation.

*Meeting Sponsorship* – The Organization earns meeting sponsorships from various sponsors that attend the events. There is a Sponsorship Agreement that is processed for each sponsor and it is signed by the Sponsor and the Executive Director of the Organization. Sponsorship revenue is recognized after the event when the Organization has satisfied its performance obligation.

*Meeting Fees* – The Organization earns meeting fees from individuals attending the events. The individuals register and pay electronically either prior to or at the event. The revenue is recognized after the event when the Organization has satisfied its performance obligation.

*In-kind Sponsorship* – The Organization earns in-kind revenue from various sponsors. There is a contractual agreement as to the value of the sponsorship that is signed by the Sponsor and the Executive Director of the Organization. The revenue and related expense is recognized after the event when both parties have satisfied their performance obligations.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At December 31, 2019, there were no uncertain tax positions that required accrual.

**Functional expenses** - The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include contract services, salaries and wages, and equipment on the basis of estimates of time and effort. All other expenses are allocated based on direct identification and utilization. Other recognized program expenses consist of expenses related to the following programs: Hackathon, College Immersion, Scholarships and NANOG on the Road.

**NOTE 2 – MANAGEMENT AND CONSULTING AGREEMENTS**

The Organization has consulting and/or management agreements with organizations who serve in operating NANOG.

Hamilton Group Meeting Planners, Inc. (HGMP) is contracted to provide meeting management and staffing to produce NANOG meetings. The term of the agreement is through December 2024.

The Organization is contracted with Andrews Hooper Pavlik PLC for tax services.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 3 – NONMONETARY TRANSACTIONS**

The Organization has connectivity sponsors for each of its meetings. The connectivity sponsor provides 500Mbps of bandwidth with a value of \$12,000 to the meeting venue and receives a specified package of sponsorship benefits. Total fair value of \$36,000 for 2019 has been recorded as in-kind sponsorship revenue and meetings expense.

The Organization has an in-kind sponsorship for enterprise cloud and associated system service. The fair value of \$24,000 for 2019 has been recorded as in-kind sponsorship revenue and operating expense.

The Organization has an in-kind annual sponsorship with in exchange for the renewal of NANOG domains for \$500 per month. The fair value of \$6,000 for 2019 has been recorded as in-kind sponsorship revenue and operating expense.

The Organization has an in-kind sponsorship with NANOG in exchange for DDOS mitigation and DNS services. The fair value of \$2,400 for 2019 has been recorded as in-kind sponsorship revenue and operating expense.

**NOTE 4 – LIQUIDITY and AVAILABILITY**

The Organization's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

Cash	\$	1,350,041
Investments		3,770,605
Accounts receivable, net		<u>396,000</u>
Total financial assets		5,516,646
Amounts not available for general use:		
Designated for future meeting commitments		<u>(1,412,547)</u>
Financial assets available to meet general expenditures within one year	\$	<u><u>4,104,099</u></u>

The Organization's financial assets have been reduced by amounts not available for general use because of board designations for future meeting commitments. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

**NOTE 5 – INVESTMENTS**

Investments were comprised of the following:

	<u>December 31, 2019</u>
Common stocks	\$ 763,691
Corporate bonds	2,965,836
Equity securities	<u>41,078</u>
Total	<u>\$ 3,770,605</u>

**NOTE 6 – FAIR VALUE MEASUREMENTS**

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the abilities to access.

Level 2      Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**NANOG, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)**

Following is a description of the valuation methodologies used for assets measured at fair value.

*Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Corporate bonds:* Valued at the net asset value of shares held by the Organization at year end.

*Equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value or certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
Common stocks	\$ 763,691	\$ -		\$ 763,691
Corporate bonds	-	2,965,836	-	2,965,836
Equity securities	41,078	-	-	41,078
Total	<u>\$ 804,769</u>	<u>\$2,965,836</u>	<u>\$ -</u>	<u>\$3,770,605</u>

**NOTE 7 – DEFINED CONTRIBUTION PLAN**

The Organization maintains a 401(k) retirement plan (the "Plan"). Under the Plan, employees can elect to defer a portion of their compensation. The Organization made employer contributions of \$21,684 to the Plan during the year ended December 31, 2019.

**NOTE 8 – COMMITMENTS**

The Organization has entered into contracts for meetings to be held through 2022. These contracts contain deposits, room and beverage commitments, and cancellation fees. The maximum cancellation fee under the contracts if the contracts were cancelled as of December 31, 2019 would be \$1,412,547 which was reported as Board designated net assets.

**NANO, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 9 – SUBSEQUENT EVENTS**

The Organization has performed a review of events subsequent to December 31, 2019 through May 11, 2020 the date the financial statements were available to be issued.

Toward the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been mandates from federal, state, and local authorities requiring forced closures of events, and the Organization has cancelled some of its planned events following those mandates. It is not currently possible to know how long these mandates will continue. As a result, these mandates could negatively impact the Organization's convention events. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction in performances and events caused by COVID-19 could result in a loss of revenues and may have other materially adverse effects.