

NEWNOG, INC. DBA NANOG

AUDITED FINANCIAL STATEMENTS

For the Year ended December 31, 2017

NEWNOG, INC. DBA NANOG

TABLE OF CONTENTS

| | Page |
|---|-------------|
| Independent Auditor's Report | 1 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Activities and Changes in Net Assets | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
NewNOG, Inc. dba NANOG
Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of NewNOG, Inc. dba NANOG (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, and cash flows 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
NewNOG, Inc. dba NANOG
Page Two

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 NewNOG, Inc. dba NANOG as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Farmington Hills, Michigan
April 30, 2018

NEWNOG, INC. DBA NANO
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

| | |
|-----------------------------|----------------------------|
| Cash | \$ 2,066,885 |
| Investments | 2,530,839 |
| Accounts receivable, net | 258,472 |
| Prepaid expenses | 72,064 |
| Property and equipment, net | <u>102,286</u> |
| Total assets | <u><u>\$ 5,030,546</u></u> |

LIABILITIES AND NET ASSETS

| | |
|-------------------|----------------|
| Accounts payable | \$ 20,658 |
| Deferred revenue | <u>731,045</u> |
| Total liabilities | <u>751,703</u> |

NET ASSETS

| | |
|--|----------------------------|
| Unrestricted - General | 3,397,491 |
| Unrestricted - Designated for future meeting commitments | <u>881,352</u> |
| Total net assets | <u>4,278,843</u> |
| Total liabilities and net assets | <u><u>\$ 5,030,546</u></u> |

NEWNOG, INC. DBA NANO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

REVENUES

| | |
|---|----------------------|
| Membership dues | \$ 59,804 |
| Meeting sponsorship | 1,883,998 |
| Meeting fees | 1,854,852 |
| Education income | 6,000 |
| Other programs income | 25,000 |
| Interest and dividend income | 19,264 |
| Other income | 4,847 |
| Unrealized/realized gain on investments | 18,277 |
| In-kind sponsorship | <u>159,500</u> |
| Total revenues | <u>4,031,542</u> |

EXPENSES

| | |
|--------------------|----------------------|
| Meetings | 1,934,460 |
| Other programs | 226,871 |
| Management fees | 56,634 |
| Operations | <u>779,996</u> |
| Total expenses | <u>2,997,961</u> |

CHANGE IN NET ASSETS **1,033,581**

NET ASSETS, Beginning **3,245,262**

NET ASSETS, Ending **\$ 4,278,843**

NEWNOG, INC. DBA NANOG
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

OPERATING ACTIVITIES

| | |
|--|---------------------|
| Change in net assets | \$ 1,033,581 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | |
| Depreciation | 23,123 |
| Unrealized (gain) on investments | (15,500) |
| Non-cash capital activity | (89,900) |
| Changes in assets and liabilities: | |
| Accounts receivable | 63,767 |
| Prepaid expenses and other assets | (30,991) |
| Accounts payable | 15,352 |
| Deferred revenue | (31,737) |
| | <hr/> |
| Net cash provided by operating activities | 967,695 |

INVESTMENT ACTIVITIES

| | |
|--|--------------------|
| Purchases of investments | (2,515,342) |
| Sale of certificate of deposit | 500,000 |
| | <hr/> |
| Net cash used in investment activities | (2,015,342) |

NET CHANGE IN CASH

(1,047,647)

CASH, Beginning

3,114,532

CASH, Ending

\$ 2,066,885

NON-CASH CAPITAL ACTIVITY

| | |
|----------------------------|-------------------------|
| Donation of capital assets | <u>\$ 89,900</u> |
|----------------------------|-------------------------|

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

NewNOG, Inc. dba NANOG (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).

Financial statement presentation follows the recommendations of the ASC topic - Presentation of Financial Statements for Not-for-Profit Entities. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. No temporarily or permanently restricted net assets were held by the Organization and accordingly, these financial statements do not reflect any activities related to this class of net assets.

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.

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,816,885 at December 31, 2017.

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 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

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 over their estimated useful life, which for the website is five years. Depreciation is calculated using the straight-line method and amounted to \$23,123 for the year ended December 31, 2017.

| | <u>December 31, 2017</u> |
|--------------------------------|--------------------------|
| Website Development | \$ 93,140 |
| Computers and Electronics | <u>89,900</u> |
| Total cost | 183,040 |
| Less: Accumulated depreciation | <u>(80,754)</u> |
| Net carrying amount | <u>\$ 102,286</u> |

Sponsorships

Sponsorships for meetings are recognized when the meeting occurs. Sponsorships that are for meetings in future years are deferred until the meeting being sponsored is held.

Membership Dues

Membership dues are paid annually or for multiple years. Membership dues are recognized as revenue on a monthly basis. Dues collected for future fiscal years are recorded as deferred revenue.

Income Taxes

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is classified as a public charity.

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, 2017, there were no uncertain tax positions that required accrual.

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued, which was April 30, 2018.

NOTE 2 – MANAGEMENT AND CONSULTING AGREEMENTS

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

The Organization is contracted with Andrews Hooper Pavlik PLC for accounting service. The term of the contract is through 2018.

iMiller Public Relations is contracted as Sponsorship Sales Director. The term of the agreement is through February 2019 and includes a bonus amount based on total of sales per meeting where the individual Meeting sponsorship revenue exceeds \$350,000.

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 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 2017 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 2017 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 2017 has been recorded as in-kind sponsorship revenue and operating expense.

The Organization has an in-kind sponsorship agreement for twenty-four month service maintenance. The fair value of \$3,600 has been recorded as in-kind sponsorship revenue and operating expense.

The Organization received fixed assets donations in 2017. The fair value of \$89,900 has been recorded as in-kind sponsorship and fixed assets.

NEWNOG, INC. DBA NANO
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 – EXPENSES BY FUNCTION

Expenses by function were as follows:

| | <u>December 31, 2017</u> |
|------------------------|--------------------------|
| Program services | \$ 2,377,406 |
| Management and general | <u>620,555</u> |
| Total | <u>\$ 2,997,961</u> |

NOTE 5 – INVESTMENTS

Investments were comprised of the following:

| | <u>December 31, 2017</u> |
|-------------------|--------------------------|
| Common stocks | \$ 496,411 |
| Corporate bonds | 2,008,453 |
| Equity securities | <u>25,975</u> |
| Total | <u>\$ 2,530,839</u> |

The following schedule summarizes the net investment earnings (losses) included in the statement of activities:

| | <u>December 31, 2017</u> |
|------------------------------|--------------------------|
| Dividend and interest income | \$ 19,264 |
| Realized gains | 2,777 |
| Unrealized gains | <u>15,500</u> |
| Total | <u>\$ 37,541</u> |

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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.

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.

NEWNOG, INC. DBA NANOG
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

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, 2017 | | | Total |
|-------------------|-------------------|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| Common stocks | \$ 496,411 | \$ - | \$ - | \$ 496,411 |
| Corporate bonds | - | 2,008,453 | - | 2,008,453 |
| Equity securities | 25,975 | - | - | 25,975 |
| Total | \$ 522,386 | \$ 2,008,453 | \$ - | \$ 2,530,839 |

NOTE 7 – DEFINED CONTRIBUTION PLAN

The Organization started a 401 (k) retirement plan (the “Plan”) in the fiscal year ended December 31, 2016. Under the Plan, employees can elect to defer a portion of their compensation. The Organization made employer contributions of \$16,198 to the Plan during the year ended December 31, 2017.

NOTE 8 – COMMITMENTS

The Organization has entered into contracts for meetings to be held through 2020. 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, 2017 would be \$881,352 which was reported as Board designated net assets.

NOTE 9 – SUBSEQUENT EVENTS

On March 14, 2018, The Organization announced its new Executive Director.