

**ARIAS U.S.**

**Financial Statements - Modified Cash Basis  
and Independent Auditor's Report**

**June 30, 2020 and 2019**

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**ARIAS U.S.**

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## Independent Auditor's Report

Board of Directors  
ARIAS U.S.

We have audited the accompanying financial statements of ARIAS U.S., which comprise the statements of assets, liabilities and net assets - modified cash basis as of June 30, 2020 and 2019, and the related statements of revenue, expenses and net assets - modified cash basis, functional expenses - modified cash basis and cash flows - modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

### *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 assets, liabilities and net assets of ARIAS U.S. as of June 30, 2020 and 2019, and its revenue and expenses and its cash flows for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1.

*Basis of Accounting*

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*CohnReznick LLP*

Hartford, Connecticut  
October 13, 2020

ARIAS U.S.

Statements of Assets, Liabilities and Net Assets - Modified Cash Basis  
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 729,919	\$ 830,597
Prepaid conference expenses	70,000	10,000
Other prepaid expenses	-	36,065
	<u>799,919</u>	<u>876,662</u>
Total	<u>\$ 799,919</u>	<u>\$ 876,662</u>
<u>Liabilities and Net Assets</u>		
Commitments (Note 3)		
Net assets without donor restrictions	<u>\$ 799,919</u>	<u>\$ 876,662</u>
Total	<u>\$ 799,919</u>	<u>\$ 876,662</u>

See Notes to Financial Statements.

**ARIAS U.S.**

**Statements of Revenue, Expenses and Net Assets - Modified Cash Basis  
Years Ended June 30, 2020 and 2019**

	2020	2019
Revenue		
Conference fees	\$ 369,057	\$ 604,596
Training seminars and workshops	85,418	75,746
Membership fees	235,000	245,457
Total	689,475	925,799
Expenses		
Program services	245,474	418,900
General and administrative	528,597	576,575
Total	774,071	995,475
Change in net assets before other income	(84,596)	(69,676)
Other income	7,853	11,607
Change in net assets	(76,743)	(58,069)
Net assets, beginning	876,662	934,731
Net assets, end	\$ 799,919	\$ 876,662

See Notes to Financial Statements.

**ARIAS U.S.**

**Statement of Functional Expenses - Modified Cash Basis  
Year Ended June 30, 2020  
(With Comparative Totals for the Year Ended June 30, 2019)**

	Program services	General and administrative	2020 Total	2019 Total
Conference expenses	\$ 229,937	\$ -	\$ 229,937	\$ 401,141
Training	15,537	-	15,537	17,759
Contracted services	-	413,077	413,077	460,337
Insurance	-	29,070	29,070	24,600
Office expense	-	7,197	7,197	3,876
Professional fees	-	17,236	17,236	16,674
Utilities	-	6,095	6,095	9,920
Bank and credit card fees	-	27,419	27,419	30,393
Publications	-	21,540	21,540	19,313
Postage and printing	-	3,875	3,875	6,840
Board fees	-	3,088	3,088	4,622
<b>Total</b>	<b>\$ 245,474</b>	<b>\$ 528,597</b>	<b>\$ 774,071</b>	<b>\$ 995,475</b>

See Notes to Financial Statements.

ARIAS U.S.

Statement of Functional Expenses - Modified Cash Basis  
Year Ended June 30, 2019

	<u>Program services</u>	<u>General and administrative</u>	<u>Total</u>
Conference expenses	\$ 401,141	\$ -	\$ 401,141
Training	17,759	-	17,759
Contracted services	-	460,337	460,337
Insurance	-	24,600	24,600
Office expense	-	3,876	3,876
Professional fees	-	16,674	16,674
Utilities	-	9,920	9,920
Bank and credit card fees	-	30,393	30,393
Publications	-	19,313	19,313
Postage and printing	-	6,840	6,840
Board fees	-	4,622	4,622
Total	<u>\$ 418,900</u>	<u>\$ 576,575</u>	<u>\$ 995,475</u>

See Notes to Financial Statements.



**ARIAS U.S.**

**Statements of Cash Flows - Modified Cash Basis  
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (76,743)	\$ (58,069)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Prepaid conference expenses	(60,000)	(5,000)
Other prepaid expenses	<u>36,065</u>	<u>(36,065)</u>
Net cash used in operating activities and net decrease in cash and cash equivalents	(100,678)	(99,134)
Cash and cash equivalents, beginning	<u>830,597</u>	<u>929,731</u>
Cash and cash equivalents, end	<u><u>\$ 729,919</u></u>	<u><u>\$ 830,597</u></u>

See Notes to Financial Statements.

## ARIAS U.S.

### Notes to Financial Statements June 30, 2020 and 2019

#### Note 1 - Organization and summary of significant accounting policies

##### **Nature of activities**

ARIAS U.S. (the "Organization") is a not-for-profit corporation that promotes improvement of the insurance and reinsurance arbitration process for the international and domestic markets. Founded in 1994, the Organization provides initial training and continuing in-depth conferences and workshops in the skills necessary to serve effectively on an insurance/reinsurance arbitration panel. In addition, the Organization certifies a pool of qualified arbitrators and serves as a resource for parties involved in a dispute to find the appropriate persons to resolve the matter in a professional, knowledgeable and cost-effective manner.

##### **Basis of presentation**

The accompanying financial statements have been prepared on the modified cash basis of accounting. The primary differences from financial statements prepared under accounting principles generally accepted in the United States of America arise from revenue being recognized when received and expenses recognized when paid except for certain conference expenses and management fees. Prepaid conference expenses are recognized as an expense when the event is held. Other prepaid expenses include management fees, which are recognized in the period for which they pertain. Services performed, pursuant to an administrative agreement that ends on December 31, 2020, are recognized in accordance with the terms of the contract. Accordingly, the accompanying financial statements are not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

##### **Cash and cash equivalents**

For purposes of the statements of cash flows, the Organization considers all highly-liquid investments with a maturity of three months or less when acquired to be cash equivalents. Cash equivalents as of June 30, 2020 and 2019 were \$601,128 and \$549,007, respectively.

##### **Functional expense allocation**

Expenses are charged to program and general and administrative based on specific identification of the expense.

##### **Income taxes**

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(6). However, certain operations of the Organization may qualify as unrelated business taxable income and to the extent that these operations generate income, they will be subject to federal and state taxes. The Organization had no unrelated business taxable income in 2020 or 2019 and does not expect any unrelated business taxable income in the near future.

The Organization has no unrecognized tax benefits at June 30, 2020 and 2019. The Organization's federal and state income tax returns prior to fiscal year 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. If the Organization has unrelated business income taxes, the Organization will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision.

## ARIAS U.S.

### Notes to Financial Statements June 30, 2020 and 2019

#### **Newly adopted accounting standards**

In June 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2020-05 ("ASU 2020-05"), *Revenue from Contracts with Customers (Topic 606) Effective Dates for Certain Entities*. The core principle of Topic 606, which replaces most existing revenue recognition guidance with a five-step framework, is that revenue from contracts with customers is recognized in an amount that reflects the consideration which an entity expects to be entitled in exchange for goods and services.

The Organization has elected to apply the deferral provided by ASU 2020-05 and, therefore, expects to adopt Topic 606 for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the potential impact of adopting Topic 606 on its financial statements.

#### **Use of estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Subsequent events**

The Organization has evaluated events and transactions for potential recognition or disclosure through October 13, 2020, which is the date the financial statements were available to be issued.

### **Note 2 - Concentrations**

#### **Credit risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization maintains its cash with high-credit quality financial institutions, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization does not believe it is exposed to any significant credit risk on cash and cash equivalents.

### **Note 3 - Commitments**

The fall and spring conferences are held at various hotels throughout the United States and require the Organization to make commitments for meeting and hotel rooms in advance of the conferences. At June 30, 2020, commitments for meeting and hotel rooms for conferences to be held through 2021 are approximately \$560,000.

The Organization has a management agreement (the "Agreement") with a third party to manage and operate the Organization. The Agreement is in effect through December 31, 2020, at which time the Agreement will automatically renew on an annual basis, unless the Agreement is terminated by either party. The Organization pays a monthly fee to the third party for the services provided. For the years ended June 30, 2020 and 2019, fees were \$391,386 and \$438,734, respectively.

## ARIAS U.S.

### Notes to Financial Statements June 30, 2020 and 2019

#### Note 4 - Available resources and liquidity

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has cash and cash equivalents to meet its liquidity needs.

As of June 30, 2020 and 2019, the following table shows the total financial assets held by the Organization and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	<u>\$ 729,919</u>	<u>\$ 830,597</u>
Total financial assets at year-end	<u>\$ 729,919</u>	<u>\$ 830,597</u>
Financial assets available to meet general expenditures over the next 12 months		
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 729,919</u>	<u>\$ 830,597</u>

#### Note 5 - Covid-19

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of revenues and other material adverse effects to the Organization's assets and net assets, revenue and expenses, and cash flows. The Organization is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and the related effects on the Organization's operations continue for an extended period of time, the Organization may have to seek alternative measures to finance its operations.



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