

Financial Statements
Years Ended
December 31, 2007 and 2006

American Registry for Internet
Numbers, Ltd.



Certified Public Accountants
Specialized Services
Business Solutions

American Registry for Internet Numbers, Ltd.

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Report of Independent Auditors

Board of Directors
American Registry for Internet Numbers, Ltd.

We have audited the accompanying statements of financial position of *American Registry for Internet Numbers, Ltd.* as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of *American Registry for Internet Numbers, Ltd.* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *American Registry for Internet Numbers, Ltd.* as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Goodman & Company, LLP

McLean, Virginia
August 18, 2008

American Registry for Internet Numbers, Ltd.

Statements of Financial Position

December 31,	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 374,277	\$ 1,181,488
Investments	26,276,735	22,637,241
Nontrade receivables	14,626	16,280
Prepaid expenses	277,211	244,532
Total current assets	26,942,849	24,079,541
Property and equipment - net	1,329,514	749,315
Other assets	20,500	-
Money market fund designated to meet ICANN liability	758,013	-
Escrow - deposit	-	861,648
Security deposit	58,844	56,826
	\$ 29,109,720	\$ 25,747,330
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,155,690	\$ 551,655
Due to ICANN	755,434	849,095
Deferred rent	94,540	97,912
Deferred revenue	4,033,452	3,834,794
Other current liabilities	7,451	551
Total current liabilities	6,046,567	5,334,007
Unrestricted net assets	23,063,153	20,413,323
	\$ 29,109,720	\$ 25,747,330

The accompanying notes are an integral part of these financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities

Years Ended December 31,	2007	2006
Revenue and support		
Registrations	\$ 9,498,769	\$ 8,944,520
IP end-user registrations	488,500	481,750
Maintenance fees	884,488	810,092
Contributions	39,747	51,104
Other revenue	7,467	5,576
Membership dues	64,800	50,000
Network transfers	85,000	-
Total revenue and support	11,068,771	10,343,042
Operating expenses (see schedules)		
Program services:		
Engineering	3,758,677	3,268,705
Registration services group	1,925,622	1,785,632
Member services	2,258,223	1,969,736
Total program services	7,942,522	7,024,073
Support services:		
General and administrative	1,882,967	1,629,684
Total operating expenses	9,825,489	8,653,757
Change in net assets before investment activities	1,243,282	1,689,285
Interest and dividends	936,873	686,207
Realized and unrealized gains on investments	469,675	1,009,460
Change in net assets	2,649,830	3,384,952
Unrestricted net assets - beginning of year	20,413,323	17,028,371
Unrestricted net assets - end of year	\$ 23,063,153	\$ 20,413,323

The accompanying notes are an integral part of these financial statements.

American Registry for Internet Numbers, Ltd.

Schedules of Operating Expenses

Years Ended December 31,	2007	2006
Salaries and employee benefits	\$ 4,776,335	\$ 4,252,352
Hiring costs	4,494	4,954
Personnel	4,780,829	4,257,306
Depreciation and amortization	350,320	406,717
Communications	389,870	390,179
Equipment support and licenses	183,087	141,501
Operations	923,277	938,397
Travel	908,055	816,049
Rent and occupancy	374,846	367,396
General office	283,996	227,941
Legal expense	672,314	282,872
Members meeting	283,489	255,572
Contingency expense	179,215	89,956
Consulting expense	522,048	349,116
Legal defense fund	204,652	351,598
General office and administrative	3,428,615	2,740,500
ICANN support	290,191	232,031
Internet research and support	119,805	196,451
NRO	41,478	21,350
ASO support and AC support	241,294	267,722
Internet support	692,768	717,554
	\$ 9,825,489	\$ 8,653,757

The accompanying notes are an integral part of these financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows

Years Ended December 31,	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 2,649,830	\$ 3,384,952
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	350,320	406,717
Realized and unrealized gains on investments	(469,675)	(1,009,460)
Loss on disposal of property and equipment	1,407	1,805
Change in:		
Nontrade receivables	1,654	1,388
Prepaid expenses	(32,679)	(27,503)
Other Assets	(20,500)	-
Escrow - deposit	103,635	(289,700)
Security deposit	(2,018)	(56,826)
Accounts payable and accrued expenses	604,035	24,246
Due to ICANN	(93,661)	232,031
Deferred rent	10,428	4,683
Deferred revenue	198,656	581,799
Other current liabilities	(6,900)	-
Net cash from operating activities	3,294,532	3,254,132
Cash flows from investing activities		
Property and equipment acquisitions	(931,924)	(246,211)
Interest and dividends retained in investments	(869,819)	(633,305)
Purchase of investments	(2,300,000)	(1,800,000)
Net cash from investing activities	(4,101,743)	(2,679,516)
Net change in cash and cash equivalents	(807,211)	574,616
Cash and cash equivalents - beginning of year	1,181,488	606,872
Cash and cash equivalents - end of year	\$ 374,277	\$ 1,181,488

The accompanying notes are an integral part of these financial statements.

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

December 31, 2007 and 2006

1. Organization and Nature of Activities

American Registry for Internet Numbers, Ltd. (ARIN) was established on August 28, 1997, and began operations on December 22, 1997. ARIN provides services related to the technical coordination and management of Internet number resources in its service region which is Canada, the United States and several islands in the Caribbean Sea and North Atlantic Ocean. ARIN facilitates the development of consensus-based policies made by its members and stakeholders, and provides information and educational outreach.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

ARIN reports information regarding its financial position and activities according to the existence or absence of externally (donor) imposed restrictions into three classes of net assets. The net asset classes are unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. ARIN had only unrestricted net assets at December 31, 2007 and 2006.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, ARIN considers all highly liquid instruments purchased with an original maturity of three months or less and available for general operating purposes to be cash equivalents. Cash accounts maintained in brokerage accounts are subject to Board of Trustees' approval and are not considered as cash and cash equivalents.

Investments

ARIN includes in investments all accounts, including money market funds, which are managed by investment advisors. Investments are recorded at fair market value, and realized and unrealized gains and losses are reported in the accompanying statements of activities.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Expenditures for additions, renewals, and improvements are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of property, the cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in operations.

Leasehold improvements are amortized over the term of the respective lease. Depreciation of property and equipment is provided for using the straight-line method over the estimated useful life of the assets which range from three to five years for furniture, fixtures and office equipment and ten years for leasehold improvements.

Deferred Revenue

Revenue received in advance of the period in which it is earned is deferred to subsequent periods. Deferred revenue is comprised principally of registration fees received in advance.

Income Taxes

ARIN is a qualifying not-for-profit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is subject to tax only on its unrelated business income. ARIN had no taxable unrelated business income during 2007 and 2006.

Revenue Recognition

Registration revenue of ASN registrations and IP initial registrations are recognized in the applicable period. Resources are not issued until payment is received.

Both initial and renewal registration revenue are recognized in the corresponding period in which the services are rendered. It is the organization's policy to reserve for overdue amounts. In cases where overdue payments are received, the appropriate amount, which may equal the entire payment, is recognized immediately to correspond to the appropriate service period.

Membership dues are recorded as revenue in the applicable period to which the membership applies.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are charged to each program based on direct expenditures incurred. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain management and staff expenses have been allocated to programs on a percentage basis.

Concentrations of Credit Risk

Financial instruments, which potentially subject ARIN to concentrations of credit risk, consist principally of cash invested at a financial institution in excess of Federal Deposit Insurance Corporation (FDIC) coverage, temporary cash investments and investments. ARIN places its temporary cash investments with high credit quality financial institutions. At December 31, 2007 and 2006, ARIN's uninsured cash balance was \$353,886 and \$1,274,980, respectively. Investments are not FDIC insured and are subject to market fluctuations. ARIN monitors the investment portfolio to minimize risk associated with these investments and diversifies accordingly.

3. Escrow – Deposit

ARIN is provided internet numbers for distribution by the Internet Corporation for Assigned Names and Numbers (ICANN). ARIN pays ICANN a voluntary contribution based on ARIN's fees collected and resources allocated. The decision to contribute is determined by ARIN on an annual basis. During 2006, ARIN deposited money to be paid to ICANN in an escrow account, with interest accruing to ARIN. At December 31, 2006, \$849,095 was in escrow for the benefit of ICANN. During 2007, the escrow arrangement was discontinued and a separate brokerage money market fund was established for use to segregate the assets designated for payment to ICANN. At December 31, 2007, the money market fund contained \$755,434 designated for ICANN.

4. Investments

Investments consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Short-term cash investments	\$ 457,811	\$ 2,113,152
Mutual funds – Balanced funds	21,420,198	16,127,487
Certificates of deposit	4,355,703	4,329,921
	<u>26,233,712</u>	<u>22,570,560</u>
Accrued interest	43,023	66,681
	<u>\$ 26,276,735</u>	<u>\$ 22,637,241</u>

5. Property and Equipment

Property and equipment and accumulated depreciation at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Furniture and fixtures	\$ 243,942	\$ 242,781
Office equipment	81,450	78,161
Computer equipment and software	3,135,542	2,264,902
Leasehold improvements	734,982	723,936
	<u>4,195,916</u>	<u>3,309,780</u>
Less – accumulated depreciation and amortization	<u>(2,866,402)</u>	<u>(2,560,465)</u>
	<u>\$ 1,329,514</u>	<u>\$ 749,315</u>

6. Retirement Plan

ARIN has a 401(k) retirement plan which is available to all employees ninety days after hire. ARIN makes a discretionary matching contribution equal to 200% of the first 3% of salary deferred and 100% of the next 3% deferred. Total retirement plan expense for 2007 and 2006 was \$395,349 and \$245,708, respectively.

7. Related Party Transactions

On October 24, 2003, the four Regional Internet Registries (RIRs) and ARIN, along with Asia Pacific Registry (APNIC), Latin American Registry (LACNIC) and European Registry (RIPE NCC), entered into a memorandum of understanding to form the Number Resource Organization (NRO). In April 2005, ICANN recognized the African Registry (AfriNIC) as the fifth RIR in the world. Until 2004, number resources were managed in Africa by the RIPE NCC, ARIN, and APNIC.

The purpose of the NRO is to undertake joint activities of the Regional Internet Registries (RIRs), including joint technical projects, liaison activities and policy coordination. The NRO Executive Council consists of one person selected by each RIR. NRO expenses are borne by the RIR signatories on an equal basis of each RIR, unless specifically superceded by a specific or general per capita agreement by the NRO Executive Council. RIRs may donate funds, personnel, services and equipment to the NRO at their individual discretion in addition to the provisions for cost sharing. ARIN's contribution to finance the operations of NRO for 2007 and 2006 was \$41,478 and \$21,350, respectively.

8. Lease Commitments

ARIN occupies office space in Chantilly, Virginia under an operating lease expiring in January 2012, with a current base monthly rental payment of \$21,843. The base rent is subject to an annual escalation percentage of 3% and increases in its proportionate share of operating expense.

Future minimum lease payments at December 31 are as follows:

2008	\$ 269,311
2009	277,436
2010	285,721
2011	294,290
2012	<u>24,584</u>
	<u>\$ 1,151,342</u>

Rent expense totaled \$258,099 and \$258,123 during 2007 and 2006, respectively.

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