



American Registry for Internet Numbers, Ltd.

Financial Statements
Years Ended December 31, 2020 and 2019

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



American Registry for Internet Numbers, Ltd.

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Years Ended December 31, 2020 and 2019

American Registry for Internet Numbers, Ltd.

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Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

Board of Trustees
American Registry for Internet Numbers, Ltd.
Centreville, Virginia

Opinion

We have audited the accompanying financial statements of American Registry for Internet Numbers, Ltd. (ARIN), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 ARIN as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 ARIN 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.

Emphasis of Matter

As described in Note 2, the 2019 financial statements have been restated to correct a misstatement. Our opinion on the 2020 financial statements is not modified with respect to this matter.

Other Matter

The financial statements of ARIN for the year ended December 31, 2019, before restatement for the matter described in the Emphasis of Matter paragraph, were audited by other auditors, whose report dated May 21, 2020 expressed an unmodified opinion on those statements.

As part of our audit of the 2020 financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 financial statements of ARIN other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 financial statements as a whole.

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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, that raise substantial doubt about ARIN's ability to continue as a going concern within one year after the date that the financial statements are issued or 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.

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 ARIN'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, that raise substantial doubt about ARIN'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.

BDO USA, LLP

McLean, Virginia
May 6, 2021

Financial Statements

American Registry for Internet Numbers, Ltd.

Statements of Financial Position

December 31,	2020	2019
		(Restated)
Assets		
Cash and cash equivalents	\$ 2,712,844	\$ 1,466,396
Investments		
Legal defense reserve fund	2,226,447	2,214,849
Operating reserve fund	1,537,215	1,562,263
Long-term reserve fund	28,047,109	26,115,666
Total investments	31,810,771	29,892,778
Accounts receivable, net	970,306	479,429
Prepaid expenses	505,177	676,228
Property and equipment, net	4,543,132	4,935,621
Deposits	117,166	116,930
Total assets	\$ 40,659,396	\$ 37,567,382
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,586,725	\$ 1,780,032
Due to ICANN	100,392	114,150
Due to APNIC	72,455	110,319
Deferred revenue	9,647,917	9,465,958
Deferred rent	1,748,575	1,970,154
Total liabilities	13,156,064	13,440,613
Commitments and contingencies (Note 8)		
Net assets without donor restrictions		
Undesignated (deficit)	27,503,332	(5,766,009)
Board-designated	-	29,892,778
Total net assets	27,503,332	24,126,769
Total liabilities and net assets	\$ 40,659,396	\$ 37,567,382

See accompanying notes to the financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities

<i>Years Ended December 31,</i>	2020	2019
		(Restated)
Revenue and support		
Registration maintenance fees	\$ 18,757,637	\$ 18,395,476
Registration allocation and assignment fees	1,495,204	1,315,263
Network transfers	346,200	353,100
Contributions	201,600	287,400
Other revenue	50,762	54,018
Total revenue and support	20,851,403	20,405,257
Operating expenses		
Program services:		
Engineering	10,287,538	10,348,187
Member services	2,457,576	3,801,480
Registration and services group	4,098,775	3,613,994
Total program services	16,843,889	17,763,661
Support services		
General and administrative	4,548,945	3,571,735
Total operating expenses	21,392,834	21,335,396
Change in net assets before investment return, net	(541,431)	(930,139)
Investment return, net	3,917,994	4,250,302
Change in net assets	3,376,563	3,320,163
Net assets, beginning of the year	24,126,769	20,806,606
Net assets, end of the year	\$ 27,503,332	\$ 24,126,769

See accompanying notes to the financial statements.

American Registry for Internet Numbers, Ltd.

Statement of Functional Expenses

Year Ended December 31, 2020	Program Services			Support Services		Total
	Engineering	Member Services	Registration Services Group	Subtotal Program Services	General and Administrative	
Salaries and employee benefits	\$ 6,345,428	\$ 1,629,669	\$ 2,936,632	\$ 10,911,729	\$ 3,692,714	\$ 14,604,443
Travel	141,254	57,490	92,529	291,273	5,043	296,316
Members meeting	11,690	9,175	-	20,865	-	20,865
Telecommunications	48,492	12,253	18,264	79,009	15,368	94,377
Engineering operations	1,426,460	-	-	1,426,460	-	1,426,460
Depreciation and amortization	828,346	223,877	380,591	1,432,814	335,816	1,768,630
Rent and occupancy	258,938	69,983	118,972	447,893	104,975	552,868
General office	439,164	111,396	223,604	774,164	165,622	939,786
Legal	231,267	62,505	106,258	400,030	93,757	493,787
ICANN support	108,125	29,223	49,679	187,027	-	187,027
Internet support	103,558	127,988	47,580	279,126	-	279,126
Professional services	325,889	89,332	115,950	531,171	135,650	666,821
Outreach and public relations	18,927	34,685	8,716	62,328	-	62,328
	\$ 10,287,538	\$ 2,457,576	\$ 4,098,775	\$ 16,843,889	\$ 4,548,945	\$ 21,392,834

See accompanying notes to the financial statements.

American Registry for Internet Numbers, Ltd.

Statement of Functional Expenses

<i>Year Ended December 31, 2019 (Restated)</i>	Program Services			Support Services		Total
	Engineering	Member Services	Registration Services Group	Subtotal Program Services	General and Administrative	
Salaries and employee benefits	\$ 5,843,340	\$ 1,865,879	\$ 2,479,236	\$ 10,188,455	\$ 2,874,565	\$ 13,063,020
Travel	554,175	191,602	206,979	952,756	30,900	983,656
Members meeting	78,219	648,048	-	726,267	-	726,267
Telecommunications	44,180	29,237	13,839	87,256	12,507	99,763
Engineering operations	1,452,367	-	-	1,452,367	-	1,452,367
Depreciation and amortization	843,954	320,920	309,976	1,474,850	256,293	1,731,143
Rent and occupancy	248,186	94,267	91,155	433,608	75,337	508,945
General office	454,616	160,894	213,025	828,535	131,706	960,241
Legal	216,934	85,914	79,107	381,955	68,123	450,078
ICANN support	126,846	47,391	47,653	221,890	-	221,890
Internet support	143,662	102,282	56,337	302,281	-	302,281
Professional services	289,375	92,397	98,407	480,179	108,273	588,452
Outreach and public relations	52,333	162,649	18,280	233,262	14,031	247,293
	\$ 10,348,187	\$ 3,801,480	\$ 3,613,994	\$ 17,763,661	\$ 3,571,735	\$ 21,335,396

See accompanying notes to the financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows

Years Ended December 31,	2020	2019
		(Restated)
Cash flows from operating activities		
Change in net assets	\$ 3,376,563	\$ 3,320,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,768,630	1,731,143
Realized and unrealized gain on investments	(2,928,297)	(3,409,052)
Loss on disposal of property and equipment	470	-
Impairment of property and equipment	-	144,551
Increase (decrease) in allowance for doubtful accounts	50	(13,250)
Change in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(490,927)	(92,267)
Prepaid expenses	171,051	84,554
Deposits	(236)	71,541
Increase (decrease) in:		
Accounts payable and accrued expenses	(193,307)	22,635
Due to ICANN	(13,758)	7,802
Due to NRO	-	(103,070)
Due to APNIC	(37,864)	110,319
Deferred revenue	181,959	438,461
Deferred rent	(221,579)	(204,158)
Net cash provided by operating activities	1,612,755	2,109,372
Cash flows from investing activities		
Property and equipment acquisitions	(1,377,036)	(1,526,480)
Proceeds from the sale of equipment	425	-
Proceeds from the sale of investments	9,443,117	3,626,651
Purchase and reinvestments of investments	(8,432,813)	(6,467,901)
Net cash used in investing activities	(366,307)	(4,367,730)
Net increase (decrease) in cash and cash equivalents	1,246,448	(2,258,358)
Cash and cash equivalents, beginning of year	1,466,396	3,724,754
Cash and cash equivalents, end of year	\$ 2,712,844	\$ 1,466,396

See accompanying notes to the financial statements.

American Registry for Internet Numbers, Ltd.

Notes to the Financial Statements

1. Organization

American Registry for Internet Numbers, Ltd. (ARIN) was established on August 28, 1997, and began operations on December 22, 1997. ARIN, a not-for-profit member-based organization, supports the operation of the Internet through the management of Internet number resources throughout its service region, which is Canada, the United States and several islands in the Caribbean Sea and North Atlantic Ocean. ARIN coordinates the development of policies by the community for the management of Internet Protocol (IP) number resources and advances the Internet through information and educational outreach.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation

ARIN follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) ASC 958-205, *Not-for-Profit Entities*. As required by the Not-for-Profit Entities Topic of the Codification, ARIN is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and cash equivalents

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 reported with investments.

Investments

Investments consist of mutual funds, equity exchange traded funds, money market funds, and certificates of deposit. ARIN includes in investments all accounts, including cash equivalents and money market funds, which are managed by investment advisors. Investments are recorded at fair market value. Interest and dividend income are accounting for on the accrual basis. Gains and losses on investments, including changes in market value, are reported in the accompanying statements of activities. Investment return, including interest, dividends, realized and unrealized gains (losses) on investments are presented net of investment expenses in the statements of activities.

Accounts receivable

Accounts receivable consist of registration fees and are recorded at original invoice, less an estimate made for doubtful receivables. Management determines the allowance for doubtful receivables by regularly evaluating individual customer receivables. Receivables are written off when deemed

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uncollectible. At December 31, 2020 and 2019, management established an allowance in the amount of \$40,050 and \$40,000, respectively.

Property and equipment

ARIN capitalizes all property and equipment purchased with a cost of \$1,000 or more. 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 shorter of the expected useful life of the improvement or the remaining lease term. 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.

ARIN capitalizes certain costs related to the development of internal-use software. Costs incurred during the application development phase are capitalized only when ARIN believes it is probable the development will result in new or additional functionality. The types of costs capitalized during the application development phase include employee compensation. Costs related to the preliminary project stage and post-implementation activities are expenses as incurred. Internal-use software is amortized over five years using the straight-line method. When internal-use software that was previously capitalized is abandoned, the cost less the accumulated amortization, if any, is recorded as impairment expense. As of December 31, 2020 and 2019, management determined there has been \$0 and \$144,551, respectively, of impairment in the carrying value of capitalized costs related to the development of internal-use software.

Deferred rent

ARIN's lease for office space includes escalations of the base rent. Rent expense is recorded on a straight-line basis over the entire lease term. The deferred rent liability recorded in the accompanying statements of financial position represents the cumulative difference between the monthly rent expense and rent paid. ARIN's office leases provide for certain incentives in the form of a landlord improvement allowance provided for leasehold improvements. This benefit is also recognized in deferred rent and is being amortized on a straight-line basis over the life of the lease.

Deferred revenue

Payments received in advance of the period in which performance obligations are satisfied are deferred to subsequent periods. Deferred revenue is comprised principally of registration fees received in advance.

Net assets

ARIN's resources are classified for accounting and reporting purposes into net asset groups established according to their nature and purpose and based on the existence or absence of donor-imposed restrictions. Accordingly, ARIN classifies net asset groups as follows:

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Net assets without donor restrictions

Undesignated net assets represent funds that are available for the support of ARIN's operations and are not subject to donor restrictions. The Board may designate net assets without donor restrictions at its discretion. Board-designated net assets include funds designated for specific programs. The balance of Board-designated net assets at December 31, 2020 and 2019, was \$0 and \$29,892,778, respectively. Refer to Note 9 for further information on Board-designated fund purposes.

Net assets with donor restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction was restricted has been fulfilled or both. ARIN had no net assets with donor restrictions at December 31, 2020 and 2019.

Revenue recognition

Registration allocation and assignment fees

Registration allocation and assignment fees are revenues received from Resource Services Plan (RSP) customers and end-user customers for use of allocations and assignments of initial internet number resources throughout a 12-month term. In addition to the allocation and assignment of internet number resources, the ARIN systems offer many methods and tools for the customer to manage and secure their resource records. The initial allocation and assignment of internet resources permits the customer to use the resource records, the IP/ASN registry services and the resource management services for a 12-month period. ARIN's performance obligation exists and is determined to be satisfied evenly throughout the term using the output method. Therefore, revenue is deferred when payment is received and is then recognized equally over the 12-month period. Prior to 2019, revenue was recognized as income in the month payment was received from the customer. Registration fees are collected in advance for a 12-month period. Use of the number resources does not start until payment is received. Payments are not refundable once service is initiated.

Registration maintenance fees

Registration maintenance fees are revenues received from RSP customers and End User customers for internet number resource services to be received subsequent to the initial registration service period. The annual registration maintenance fee allows customers continued use of the internet number resources, the IP/ASN registry services and the resource management services for an additional 12-month period. ARIN's performance obligation exists and is determined to be satisfied evenly throughout the term using the output method and therefore the revenue is recognized over time. Customers are billed annual registration maintenance service fees 60 days prior to their anniversary month. Revenue is deferred upon billing and is later recognized equally over the 12-month period beginning with the anniversary month.

There are limited economic factors that would affect the nature, amount and timing of cash flows or uncertainty or revenue recognition as IP addresses are limited and in demand. ARIN did not have any impairment or credit losses on any receivables arising from contracts with customers. There are

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also no incremental costs of obtaining a contract and no significant financing components or variable considerations in pricing. Fixed fees are charged based on service category and IP block size.

Network transfers

Network transfer fees are charged for services performed to evaluate the appropriateness and legality of requested internet number resource transfers between community members. The network transfer evaluation service begins when payment is received and ends when the transaction ticket is closed. Revenue is recognized when the transfer evaluation service is completed at a point in time at which ARIN's performance obligation is completed.

Contributions

Unconditional contributions received are recorded as an increase in net assets with or without donor restrictions depending on the existence and/or nature of any donor restrictions in the period acknowledged. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets with a donor time and/or purpose restriction are reclassified to net assets without donor restriction reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions are reported as net assets without donor restriction if the restrictions are met in the same period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional contributions as of December 31, 2020 and 2019.

Functional allocation of expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of ARIN are reported as expenses of those functional areas. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of ARIN. Certain costs have been allocated among the program and supporting service categories based on various methods, including headcount. These costs include, but are not limited to: certain management and staff expenses, general services, rent, as well as depreciation, interest and taxes.

Income taxes

ARIN is a qualifying not-for-profit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is exempt from federal income taxes. Management evaluated ARIN's tax positions and concluded that ARIN had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. ARIN recognizes interest expense and penalties related to income taxes on uncertain tax positions in management and general expenses on the statements of activities and change in net assets and accounts payable and accrued expenses in the statements of financial position. No interest expense and penalties related to income taxes on uncertain tax positions were recognized for the years ended December 31, 2020 and 2019.

ARIN files income tax returns in the U.S federal jurisdiction. In accordance with FASB ASC 740, *Income Taxes*, ARIN recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on

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accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. With a few exceptions, ARIN is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before fiscal year 2017. Management has evaluated ARIN's tax positions and has concluded that ARIN has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Use of 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 certain 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial instruments and credit risk

ARIN's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable. Non-interest-bearing bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) with a limit of \$250,000 per depositor at December 31, 2020 and 2019. At December 31, 2020 and 2019, ARIN had cash and cash equivalents of approximately \$2.4 million and \$1.4 million, respectively, in excess of FDIC insured limits. ARIN has never experienced any losses related to these balances.

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 changes could materially affect the investment balances and the amounts reported in the statements of financial position. Historically, ARIN has not experienced significant losses related to accounts receivable balances and, therefore, believes that the credit risk related to them is minimal.

Accounting Pronouncement Adopted

In August 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update amends the disclosure requirements in Topic 820 for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. The ASU is effective for financial statements for fiscal years beginning after December 15, 2019. The adoption of this ASU did not have an impact to the financial statements.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally using the straight-line method. The guidance is effective for ARIN for the fiscal year ending

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Notes to the Financial Statements

December 31, 2022. Early adoption is permitted. In transition, a lessee and a lessor will recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. Management is currently evaluating the impact of this ASU on the financial statements.

Reclassification

Certain items in the 2019 information have been reclassified to conform to the current year presentation. This includes a reclassification of \$835,705 of expenses from telecommunications to engineering operations and \$145,392 of expenses from salaries and employee benefits expense to general office expense. These reclassifications had no effect on previously reported change in net assets or net assets.

Restatement

During the review of accounting policies and practices, the ARIN management team identified reporting errors related to its previously presented accounts receivable and property and equipment. The reporting errors require the restatement of certain items presented in previous financial statements to be compliant with U.S. GAAP.

The accounts receivable restatement resulted from End User maintenance invoices being excluded from the general ledger when they became due. The property and equipment restatement resulted from the capitalization of certain engineering costs related to the development of internal-use software that did not meet the criteria for capitalization under ASC 350-40 *Intangibles, Goodwill and Other, Internal-Use Software*. The aggregation of these reporting errors resulted in an overstatement of assets of \$4,449,268 within the Statement of Financial Position, a \$137,723 overstatement of expenses within the Statement of Functional Expenses, and a \$238,948 understatement of the change in net assets within the Statement of Activities. The impact of the restatement is presented below:

<i>As of December 31, 2019</i>	Balance as previously reported	Restatement	Balance as restated
Accounts receivable, net	\$ 277,329	\$ 202,100	\$ 479,429
Property and equipment, net	9,586,989	(4,651,368)	4,935,621
Deferred revenue	9,263,858	202,100	9,465,958
Undesignated net assets	(1,114,641)	(4,651,368)	(5,766,009)
Registration maintenance fees	18,294,251	101,225	18,395,476
Salaries and employee benefits expense	11,676,434	1,531,978	13,208,412
Depreciation and amortization expense	3,502,069	(1,770,926)	1,731,143
General office expense*	713,624	101,225	814,849
Change in net assets	3,081,215	238,948	3,320,163

American Registry for Internet Numbers, Ltd.

Notes to the Financial Statements

*Included within general and administrative expense in the Statement of Activities and the Statement of Functional Expense.

The following is a summary of the effects of this restatement and the accounting error noted above as of December 31, 2018:

	Balance as previously reported	Restatement	Balance as restated
Net assets	\$ 25,696,922	\$ (4,890,316)	\$ 20,806,606

3. Investments and Fair Value Measurements

FRS ASC 820, *Fair Value Measurement*, established 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide highest quality inputs.

Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant observable inputs.

Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs.

ARIN uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, ARIN measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Money market funds reported as Level 1 inputs have been valued at the closing price reported by the fund sponsor from an actively traded exchange. Exchange-traded funds have been valued at the closing price reported on the active market in which the individual securities are traded. Mutual funds have been valued at the reported net asset value of the fund, which is the price at which additional shares can be obtained. Certificates of deposit are valued at amortized cost based upon observable inputs, such as interest rates, which approximates fair value and are therefore classified as Level 2 assets. There have been no changes in the valuation methodologies during the current year.

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Notes to the Financial Statements

ARIN has determined the fair value of certain assets through application of FASB ASC 820. Fair values of investments measured on a recurring basis at December 31, 2020 and 2019 are as follows:

	<u>Fair value measurements at reporting date using</u>			
	<u>2020 Total</u>	<u>Quoted prices in active markets for identical assets/ liabilities Level 1</u>	<u>Significant other observable inputs Level 2</u>	<u>Significant unobservable inputs Level 3</u>
Mutual funds:				
Bond fund	\$ 8,154,613	\$ 8,154,613	\$ -	-
Growth funds	5,119,302	5,119,302	-	-
Foreign blended funds	4,882,711	4,882,711	-	-
U.S. blended funds	2,401,172	2,401,172	-	-
Multi-alternative	822,968	822,968	-	-
	21,380,766	21,380,766	-	-
Equity exchange traded funds	6,665,862	6,665,862	-	-
Certificates of deposit	1,443,953	-	1,443,953	-
Money market funds	1,086,357	1,086,357	-	-
	\$ 30,576,938	\$ 29,132,985	\$ 1,443,953	-

The table below reconciles total investments to the statement of financial position at December 31, 2020:

Investments held at fair value	\$ 30,576,938
Investments held at cost	1,233,833
	\$ 31,810,771

Cash accounts maintained in brokerage accounts totaling \$1,233,833 are not included in the above table because they are recorded at cost.

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	2019 Total	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets/ liabilities Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Mutual funds:				
Bond fund	\$ 6,761,448	\$ 6,761,448	\$ -	\$ -
Growth funds	5,331,616	5,331,616	-	-
Foreign blended funds	4,291,854	4,291,854	-	-
U.S. blended funds	2,867,054	2,867,054	-	-
Multi-alternative	938,465	938,465	-	-
Bank loan	777,280	777,280	-	-
	20,967,717	20,967,717	-	-
Equity exchange traded funds	5,167,011	5,167,011	-	-
Certificates of deposit	1,698,510	-	1,698,510	-
Money market funds	1,082,127	1,082,127	-	-
	\$ 28,915,365	\$ 27,216,855	\$ 1,698,510	\$ -

The table below reconciles total investments to the statement of financial position at December 31, 2019:

Investments held at fair value	\$ 28,915,365
Investments held at cost	977,413
	\$ 29,892,778

Cash accounts maintained in brokerage accounts totaling \$977,413 are not included in the above table because they are recorded at cost.

Realized and unrealized (loss) gain on investments are reported net of related expenses, such as custodial, commission, and investment advisory fees. There were no internal management expenses for the years ended December 31, 2020 and 2019.

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4. Accounts Receivable

The amounts due from accounts receivable at December 31, 2020 and 2019, are as follows:

	2020	2019
		(Restated)
Accounts receivable	\$ 1,010,356	\$ 519,429
Less allowance for doubtful accounts	(40,050)	(40,000)
Total accounts receivable, net	\$ 970,306	\$ 479,429

5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2020 and 2019, are as follows:

	2020	2019
		(Restated)
ARIN online database	\$ 14,709,478	\$ 13,748,362
Computer equipment	5,819,560	6,301,673
Computer software	1,006,950	860,324
Furniture and fixtures	505,097	505,097
Office equipment	38,547	38,547
Leasehold improvements	2,348,632	2,348,632
	24,428,264	23,802,635
Less accumulated depreciation and amortization	(19,885,132)	(18,867,014)
	\$ 4,543,132	\$ 4,935,621

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$1,768,630 and \$1,731,143, respectively.

6. Retirement Plan

ARIN has a 401(k) retirement plan, which is available to all employees within their first month of 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 contribution expense for 2020 and 2019 was \$1,253,234 and \$1,232,604, respectively.

7. Related Party Transactions

On October 24, 2003, the four Regional Internet Registries (RIR) entered into a memorandum of understanding to form the Number Resource Organization (NRO). The NRO memorandum was originally signed by ARIN, the Asia Pacific region registry (APNIC), the Latin American region registry (LACNIC) and the European region registry (RIPE NCC). The fifth RIR for the African region, AFRINIC, joined by signing the NRO memorandum of understanding in 2005.

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The purpose of the NRO is to undertake joint activities of the 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 superseded 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 2020 and 2019 were \$72,455 and \$111,567, respectively. These expenses are reflected within internet support expense in the statements of functional expenses.

The five Regional Internet Registries (RIRs) have an agreement with the Internet Corporation for Assigned Names and Numbers (ICANN) for the distribution of Internet numbers. Based on the NRO coordination function described above, the RIRs pay ICANN \$650,000 annually for this IANA registration services and an additional voluntary contribution of \$183,000 for a total of \$823,000 annually. This expense is allocated to each RIR on a pro-rated basis proportional to the RIRs total registration services fees. During 2020 and 2019, ARIN paid ICANN a total of \$187,026 and \$221,890, respectively. These expenses are reflected within ICANN support expense in the statements of functional expenses.

8. Commitments and Contingencies

Lease commitments

Effective November 1, 2018, ARIN entered into a copier lease agreement. The equipment lease is accounted for in accordance with ASU 2016-02, *Leases*. This lease meets the criteria set forth under accounting guidance for recording finance lease obligations. ARIN entered into a new lease agreement in December 2015 for new office space in Chantilly, Virginia. The lease commenced in August 2016 and expires in January 2027 with a base monthly rental payment of \$54,579. Rent payments commenced on the one-year anniversary of the lease commencement date. The base rent is subject to an annual escalation percentage of 2.5% and increases in its proportionate share of operating expense.

Deferred rent is recorded in relation to the escalating lease payments. The lease provides two optional renewal terms of five years each. ARIN also utilized \$1,930,153 of the tenant improvement allowances provided by the lease. This allowance is included with property and equipment, net in the accompanying statements of financial position and is being amortized over the life of the lease. A deferred rent liability is recorded on the statements of financial position in relation to the tenant improvement allowance and escalating lease payments.

Future minimum lease payments for the years ending December 31, are as follows:

2021	\$	730,496
2022		748,689
2023		767,395
2024		786,615
2025		806,349
Thereafter		896,479
	\$	4,736,023

Rent expense totaled \$521,759 and \$492,502 during 2020 and 2019, respectively.

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Future commitments

In 2016, ARIN's Board approved contributing up to \$2,000,000 to the Internet Engineering Task Force (IETF) Endowment, reflecting this strong commitment by the ARIN community to the Internet protocols and related work of the IETF. ARIN paid \$1,000,000 in 2016 and will make the additional \$1,000,000 payment at a future date, once all the Regional Internet Registry (RIRs) and the Internet Society determines such date and certain conditions are satisfied.

In 2015, the NRO Executive Council, which includes ARIN, entered into a formal commitment towards safeguarding the stability of the RIR system by establishing a Joint RIR Stability Fund. The Joint RIR Stability Fund is to guarantee the continued operation of all five RIRs and to ensure ongoing coordination support for the policy development communities of the five RIRs. ARIN's pledge of \$250,000 is only to be paid when certain conditions are satisfied.

Severance agreement commitments

ARIN provides various severance plans to employees within various levels of the organization under specific conditions and for various time periods up to 12 months.

Contracts

ARIN has entered into agreements with various properties and service organizations for conference and meeting facilities in 2020 and beyond. Certain agreements contain various clauses whereby ARIN may be liable for damages in the event of cancellation or lower-than-anticipated attendance. Management of ARIN does not believe that any material losses will be incurred under any of these agreements.

Risks and uncertainties

On January 30, 2020, the Director-General of the World Health Organization (WHO) declared the novel coronavirus outbreak a public health emergency of international concern (PHEIC), WHO's highest level of alarm. On March 11, 2020, the WHO declared the novel coronavirus a global pandemic.

ARIN's financial condition, operations and liquidity have not been significantly impacted by the global pandemic. The global pandemic of COVID-19 continues to rapidly evolve, and ARIN will continue to monitor the COVID-19 situation closely. Although ARIN cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse impact on ARIN's results of future operations, financial position, and liquidity in fiscal year 2021.

On March 27, 2020, the President of the United States signed into law the "Coronavirus Aid, Relief and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. ARIN has not applied for any economic assistance through the Paycheck Protection Program, established by the CARES Act on March 27, 2020. Management continues

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to monitor the impact the COVID-19 pandemic could potentially have on its operations and financial position.

9. Net Assets Without Donor Restrictions

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available to finance the general operations of ARIN. The only limits on the use of net assets without donor restrictions are the purposes specified in ARIN's articles of incorporation and those limitations resulting from the nature of ARIN and the environment in which it operates.

Board-Designated Net Assets

ARIN board-designated net assets are based on voluntary resolutions by the Board to designate a portion of net assets for specific purposes and do not result in restricted net assets. Since designations are voluntary and may be reversed by the Board at any time, designated net assets are classified as net assets without donor restrictions.

The legal defense reserve fund are net assets maintained for purposes of funding legal challenges as they arise. The operating reserve fund are net assets to provide short-term financial stability for ARIN. The long-term reserve fund are net assets to provide long-term financial stability for ARIN. For the year end December 31, 2020, the Board elected for all net assets without donor restrictions to be classified as undesignated. Additionally, the Board reviews net assets without donor restrictions annually to assess the need for any board designation.

The Board has designated net assets without donor restrictions for the following purposes at December 31, 2020 and 2019:

		2020	2019
Legal defense reserve fund	\$	-	\$ 2,214,849
Operating reserve fund		-	1,562,263
Long-term reserve fund		-	26,115,666
Total Board-designated net assets	\$	-	\$ 29,892,778

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10. Liquidity and Availability of Financial Assets

ARIN regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 2,712,844	\$ 1,466,396
Accounts receivable, net	970,306	479,429
Investments	31,810,771	29,892,778
Total financial assets available	35,493,921	31,838,603
Amounts designated by the Board (See Note 9)	-	(29,892,778)
Financial assets available to meet cash needs for general expenditures within one year	\$ 35,493,921	\$ 1,945,825

ARIN has various sources of liquidity at its disposal, including cash and cash equivalents, and long-term equity funds.

As part of liquidity management, ARIN may invest cash in excess of daily requirements in short-term investments. ARIN assesses its operating budget and cash flow projections monthly to monitor the availability of resources to support operations.

11. Subsequent Events

ARIN has evaluated its December 31, 2020 financial statements for subsequent events through May 6, 2021, the date the financial statements were available to be issued. ARIN is not aware of any subsequent events which would require recognition or disclosure in the financial statements.