American Registry for Internet Numbers, Ltd.

Financial Report
December 31, 2015

Contents

Independent Auditor's Report

To the Board of Trustees
American Registry for Internet Numbers, Ltd.
Chantilly, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of American Registry for Internet Numbers, Ltd. (ARIN) which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities and cash flows 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 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.

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 American Registry for Internet Numbers, Ltd. as of December 31, 2015 and 2014, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McLean, Virginia
[REPORT DATE]

American Registry for Internet Numbers, Ltd.

Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	**$ 1,615,739**	$ 2,779,518
Investments:		
Legal defense reserve fund	**2,092,660**	2,078,739
Operating reserve fund	**2,777,982**	2,837,447
Long-term reserve fund	**26,819,965**	26,956,173
	31,690,607	31,872,359
Accounts receivable, net	**586,217**	461,396
Prepaid expenses	**761,939**	490,870
Property and equipment, net	**7,066,052**	5,838,478
Deposits	**177,492**	101,369
	$ 41,898,046	$ 41,543,990
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,396,111**	$ 1,212,927
Due to ICANN	**112,152**	112,463
Due to NRO	**-**	76,442
Deferred revenue	**7,063,644**	6,751,995
Deferred rent	**147,836**	179,188
Total liabilities	**8,719,743**	8,333,015
Commitments (Note 6)		
Net assets:		
Unrestricted	**33,178,303**	33,210,975
	$ 41,898,046	$ 41,543,990

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities
Years Ended December 31, 2015 and 2014

	2015	2014
Revenue and support:		
Registrations	**$ 14,587,900**	$ 13,910,021
Maintenance fees	**2,288,800**	2,065,800
IP end-user registrations	**668,500**	734,250
Contributions	**241,716**	234,100
Network transfers	**276,500**	206,250
Membership dues	**34,000**	27,500
Other revenue	**4,542**	2,299
Total revenue and support	**18,101,958**	17,180,220
Operating expenses:		
Program services:		
Engineering	**9,172,969**	7,002,847
Member services	**3,839,166**	3,818,975
Registration services group	**2,620,380**	2,984,946
Total program services	**15,632,515**	13,806,768
Support services:		
General and administrative	**2,407,455**	2,523,152
Total operating expenses	**18,039,970**	16,329,920
Change in net assets before investment activities	**61,988**	850,300
Realized and unrealized losses on investments	**(1,200,897)**	(403,586)
Interest and dividends	**1,106,237**	1,585,887
Change in net assets	**(32,672)**	2,032,601
Unrestricted net assets, beginning of year	**33,210,975**	31,178,374
Unrestricted net assets, end of year	**$ 33,178,303**	$ 33,210,975

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	**$ (32,672)**	$ 2,032,601
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,735,164**	2,315,994
Realized and unrealized losses in investments	**1,200,897**	403,586
Gain on disposal of property and equipment	**(232)**	(23)
Bad debt expense	**129,100**	44,283
Deferred rent	**(31,352)**	(22,356)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(253,921)**	(138,368)
Prepaid expenses	**(271,069)**	(8,005)
Deposits	**(76,123)**	(9,530)
Increase (decrease) in:		
Accounts payable and accrued expenses	**183,184**	244,894
Due to ICANN	**(311)**	11,053
Due to APNIC	**-**	(65,129)
Due to AfriNIC	**-**	(6,160)
Due to NRO	**(76,442)**	76,442
Deferred revenue	**311,649**	382,292
Net cash provided by operating activities	**3,817,872**	5,261,574
Cash flows from investing activities:		
Property and equipment acquisitions	**(3,962,823)**	(2,998,944)
Proceeds from the sale of equipment	**317**	795
Proceeds from the sale of investments	**14,378,332**	4,953,933
Purchase of investments	**(15,397,477)**	(7,204,566)
Cash received from lessor	**-**	9,738
Net cash used in investing activities	**(4,981,651)**	(5,239,044)
Net (decrease) increase in cash and cash equivalents	**(1,163,779)**	22,530
Cash and cash equivalents:		
Beginning	**2,779,518**	2,756,988
Ending	**$ 1,615,739**	$ 2,779,518

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: American Registry for Internet Numbers, Ltd. (ARIN) was established on August 28, 1997, and began operations on December 22, 1997. ARIN, a nonprofit 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 number resources and advances the Internet through information and educational outreach.

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, where unconditional support is recognized when received, revenues are recognized when earned and expenses are recognized when incurred.

A summary of ARIN's significant accounting policies is as follows:

Basis of presentation: The accompanying financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). 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 no temporarily or permanently restricted net assets at December 31, 2015 and 2014.

The Board of Trustees has designated net assets for the following purposes:

Legal defense reserve fund: To fund legal challenges as they arise. At December 31, 2015 and 2014, the Legal Defense Reserve Fund totaled $2,092,660 and $2,078,739, respectively.

Operating reserve fund: To provide short-term financial stability for ARIN. At December 31, 2015 and 2014, the Operating Reserve Fund totaled $2,777,982 and $2,837,447, respectively.

Long-term reserve fund: To provide long-term financial stability for ARIN. At December 31, 2015 and 2014, the Long-Term Reserve Fund totaled $26,819,965 and $26,956,173, respectively.

Cash and cash equivalents: For the purposes of the statements 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.

Financial risk: ARIN maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. ARIN has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash.

ARIN invests in a portfolio that contains cash, exchange traded funds, mutual funds, money market funds and certificates of deposit. Such investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: 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, and realized and unrealized gains and losses are reported in the accompanying 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 uncollectible. At December 31, 2015 and 2014, management established an allowance in the amount of $76,750 and $42,750, respectively.

Property and equipment: ARIN capitalizes all property and equipment purchased of $1,000 or more 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 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 expenses preliminary project stage costs as incurred. Capitalized applications stage software costs are amortized over five years using the straight-line method. Post-implementation and operation stage costs are expensed as incurred.

Impairment of long-lived assets: ARIN reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2015 and 2014, management has determined that there has been no impairment in the carrying value of long-lived assets reflected in the accompanying financial statements.

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 statement of financial position represents the cumulative difference between the monthly rent expense and rent paid. ARIN's office lease provides for certain incentives in the form of a landlord improvement allowance provided for leasehold improvements. This benefit 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 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 nonprofit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is exempt from federal income taxes. ARIN did not have any unrelated business income the years ended December 31, 2015 and 2014. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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. Generally, ARIN is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012.

Revenue recognition: Registration revenue of ASN and IP 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.

Fees for maintenance and administration of the addresses are recognized as revenue when received.

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

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Use of estimates: The preparation of financial statements 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 revenue 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 statements 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.

Recent accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. ARIN is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Reclassifications: Certain items in the December 31, 2014, financial information have been reclassified to conform to the December 31, 2015, financial statement presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through [REPORT DATE], which is the date the financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

In accordance with the FASB Codification statement, Fair Value Measurement, ARIN has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the statements of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, government obligations and over-the-counter derivatives.

Level 3: These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Exchange traded, mutual funds and money market funds: Valued at quoted market prices in active markets for identical assets, and therefore classified as Level 1 assets.

Certificates of deposit: Valued at market prices based upon observable inputs such as interest rates, and therefore classified as Level 2 assets.

Note 2. Investments and Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2015:

Description	Level 1	Level 2	Level 3	Total
Mutual funds, balanced funds:				
Growth funds	$ 10,623,777	$ -	$ -	$ 10,623,777
Bond fund	6,599,973	-	-	6,599,973
U.S. blended funds	1,651,471	-	-	1,651,471
Foreign blended funds	704,543	-	-	704,543
Bank loan	1,082,110	-	-	1,082,110
Multialternative	1,201,171	-	-	1,201,171
	21,863,045	-	-	21,863,045
Equity exchange traded funds	4,969,303	-	-	4,969,303
Certificates of deposit	-	3,687,676	-	3,687,676
Money market funds	689,564	-	-	689,564
	$ 27,521,912	$ 3,687,676	$ -	$ 31,209,588

The table below reconciles total investments to the statement of financial position at December 31, 2015

Investments held at fair value	$ 31,209,588
Investments held at cost	481,019
	$ 31,690,607

Cash accounts maintained in brokerage accounts totaling $481,019 are not included in the above table, because they are recorded at cost.

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2014:

Description	Level 1	Level 2	Level 3	Total
Mutual funds, balanced funds:				
Growth funds	$ 9,359,594	$ -	$ -	$ 9,359,594
Bond fund	6,746,893	-	-	6,746,893
U.S. blended funds	2,601,439	-	-	2,601,439
Foreign blended funds	1,168,057	-	-	1,168,057
Bank loan	1,100,513	-	-	1,100,513
Multialternative	994,959	-	-	994,959
Commodities funds	591,359	-	-	591,359
	22,562,814	-	-	22,562,814
Money market funds	1,431,431	-	-	1,431,431
Equity exchange traded funds	4,403,448	-	-	4,403,448
Certificates of deposit	-	3,474,666	-	3,474,666

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2015 and 2014, are as follows:

	2015	2014
Database	$ 11,581,848	$ 9,507,865
Computer equipment	5,857,438	5,097,690
Computer software	779,149	744,648
Furniture and fixtures	319,340	324,417
Office equipment	66,640	88,455
Software (in process)	517,942	83,556
Leasehold improvements	982,626	950,503
	20,104,983	16,797,134
Less accumulated depreciation and amortization	13,038,931	10,958,656
	$ 7,066,052	$ 5,838,478

Note 4. 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 percent of the first 3 percent of salary deferred and 100 percent of the next 3 percent deferred. Total retirement plan contribution for 2015 and 2014 was $897,678 and $836,225, respectively.

Note 5. Related Party Transactions

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. During 2015 and 2014, ARIN paid ICANN $223,993 and $235,979, respectively.

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 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 2015 and 2014 were $128,156 and $136,465, respectively.

Note 6. Commitments

Lease commitments: ARIN has a lease for office space in Chantilly, Virginia. ARIN occupies the space under an operating lease expiring in January 2019, with a current base monthly rental payment of $20,959. The base rent is subject to an annual escalation percentage of 3 percent and increases in its proportionate share of operating expense. Deferred rent is recorded in relation to the escalating lease payments. As of December 31, 2015, ARIN utilized $162,475 of the tenant improvement allowances provided by the lease. This allowance is included with property and equipment in the accompanying statement of financial position and is being amortized over the life of the lease. A deferred rent liability is recorded on the statement of financial position in relation to the tenant improvement allowance and escalating lease payments.

During December 2015, ARIN entered into a new lease agreement for new office space in Chantilly, Virginia. The lease commences in August 2016 and expires in January 2028, with a base monthly rental payment of $54,579. Rent payments commence on the one year anniversary of the lease commencement date. The base rent is subject to an annual escalation percentage of 2.5 percent and increases in its proportionate share of operating expense. The lease provides two optional renewal terms of five years each. ARIN will have a tenant improvement allowance not to exceed $1,749,504. ARIN plans to seek a sublease for their original office space that will expire in January 2019.

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

Years ending December 31:	Amount
2016	$ 274,164
2017	562,131
2018	969,492
2019	719,955
2020	712,667
Thereafter	4,736,023
	$ 7,974,432

Rent expense totaled $234,827 and $235,460 during 2015 and 2014, respectively.

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.

Independent Auditor's Report
on the Supplementary Information

To the Board of Trustees
American Registry for Internet Numbers, Ltd.
Chantilly, Virginia

We have audited the financial statements of American Registry for Internet Numbers, Ltd. (ARIN) as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon, which contains an unmodified opinion on those financial statements as a whole (see pages 1 and 2). Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McLean, Virginia
[REPORT DATE]

American Registry for Internet Numbers, Ltd.

Schedules of Operating Expenses
Years Ended December 31, 2015 and 2014

	2015	2014
Salaries and employee benefits	**$ 9,092,160**	$ 8,048,158
Hiring costs	**9,162**	8,675
Personnel	**9,101,322**	8,056,833
Depreciation and amortization	**2,735,164**	2,315,994
Communications	**831,152**	829,719
Equipment support and licenses	**451,348**	421,290
Operations	**4,017,664**	3,567,003
Travel	**1,091,478**	1,139,692
General office	**785,341**	728,587
Outreach expense	**380,603**	389,857
Members meeting	**433,380**	410,551
Legal expense	**758,999**	511,966
Rent and occupancy	**397,594**	383,734
Consulting expense	**270,661**	335,194
General office and administrative	**4,118,056**	3,899,581
Internet research and support	**182,182**	194,709
ASO support and AC support	**268,597**	239,350
ICANN support	**223,993**	235,979
NRO	**128,156**	136,465
Internet support	**802,928**	806,503
	$ 18,039,970	$ 16,329,920