

Financial Statements
Years Ended
December 31, 2009 and 2008

American Registry for Internet
Numbers, Ltd.



Certified Public Accountants
Specialized Services
Business Solutions

American Registry for Internet Numbers, Ltd.

Contents

	Page
<i>Report of Independent Auditors</i>	1
<i>Financial Statements</i>	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3
<i>Schedules of Operating Expenses</i>	4
<i>Statements of Cash Flows</i>	5
<i>Notes to Financial Statements</i>	6 - 11



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Report of Independent Auditors

Board of Trustees
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, 2009 and 2008, 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 audits 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, 2009 and 2008, 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

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June 3, 2010

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American Registry for Internet Numbers, Ltd.

Statements of Financial Position

December 31,	2009	2008
Assets		
Cash and cash equivalents	\$ 1,464,337	\$ 682,126
Investments		
Legal Defense Reserve fund	2,300,750	2,766,194
Operating Reserve fund	1,322,677	1,304,699
Long-Term Reserve fund	21,022,150	15,682,071
Total investments	24,645,577	19,752,964
Accounts receivable - net	239,199	198,419
Prepaid expenses	309,759	615,620
Property and equipment - net	1,992,485	1,888,778
Other assets	225,935	41,533
Security deposit	62,857	60,934
	\$ 28,940,149	\$ 23,240,374
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 780,652	\$ 1,109,530
Due to ICANN	113,985	146,420
Deferred rent	63,928	83,308
Deferred revenue	4,829,416	4,513,676
Other liabilities	4,600	1,625
Total liabilities	5,792,581	5,854,559
Unrestricted net assets	23,147,568	17,385,815
	\$ 28,940,149	\$ 23,240,374

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

American Registry for Internet Numbers, Ltd.

Statements of Activities

Years Ended December 31,	2009	2008
Revenue and support		
Registrations	\$ 10,380,784	\$ 9,889,400
IP end-user registrations	511,250	555,250
Maintenance fees	1,384,484	988,566
Contributions	34,250	11,035
Other revenue	5,589	3,836
Membership dues	25,000	31,500
Network transfers	96,750	94,245
Total revenue and support	12,438,107	11,573,832
Operating expenses (see schedules)		
Program services:		
Engineering	4,917,678	4,535,564
Registration services group	2,044,209	1,914,918
Member services	2,377,983	2,516,609
Outreach services	668,557	415,078
Total program services	10,008,427	9,382,169
Support services:		
General and administrative	2,132,826	1,874,487
Total operating expenses	12,141,253	11,256,656
Change in net assets before investment activities	296,854	317,176
Interest and dividends	587,566	1,294,564
Realized and unrealized gains (losses) on investments	4,877,333	(7,289,078)
Change in net assets	5,761,753	(5,677,338)
Unrestricted net assets - beginning of year	17,385,815	23,063,153
Unrestricted net assets - end of year	\$ 23,147,568	\$ 17,385,815

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,	2009	2008
Salaries and employee benefits	\$ 6,477,509	\$ 5,683,320
Hiring costs	5,250	112,739
Personnel	6,482,759	5,796,059
Depreciation and amortization	925,541	653,193
Communications	532,812	495,108
Equipment support and licenses	308,212	227,505
Operations	1,766,565	1,375,806
Travel	867,630	946,362
Rent and occupancy	397,304	383,721
General office	536,392	523,182
Legal expense	414,511	489,221
Members meeting	385,473	462,977
Contingency expense	99,135	98,099
Consulting expense	299,437	444,318
Outreach expense	202,697	-
General office and administrative	3,202,579	3,347,880
ICANN support	195,585	247,723
Internet research and support	231,177	223,527
NRO	64,534	41,668
ASO support and AC support	198,054	223,993
Internet support	689,350	736,911
	\$ 12,141,253	\$ 11,256,656

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,	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 5,761,753	\$ (5,677,338)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	925,541	653,193
Realized and unrealized (gains) losses on investments	(4,877,333)	7,289,078
Loss on disposal of property and equipment	2,115	3,528
Bad debt expense	130,305	141,375
Change in:		
Accounts receivable	(171,085)	(325,168)
Prepaid expenses	305,861	(338,409)
Other assets	(184,402)	(21,033)
Escrow - deposit	-	758,013
Security deposit	(1,923)	(2,090)
Accounts payable and accrued expenses	(328,877)	(46,160)
Due to ICANN	(32,435)	(609,014)
Deferred rent	(19,380)	(11,232)
Deferred revenue	315,740	480,225
Other liabilities	2,975	(5,826)
Net cash from operating activities	1,828,855	2,289,142
Cash flows from investing activities		
Property and equipment acquisitions	(1,031,364)	(1,215,985)
Interest and dividends retained in investments	(583,478)	(1,292,960)
Proceeds from the sale of investments	568,198	1,027,652
Purchase of investments	-	(500,000)
Net cash from investing activities	(1,046,644)	(1,981,293)
Net change in cash and cash equivalents	782,211	307,849
Cash and cash equivalents - beginning of year	682,126	374,277
Cash and cash equivalents - end of year	\$ 1,464,337	\$ 682,126

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

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

December 31, 2009 and 2008

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, 2009 and 2008.

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

Legal Defense Fund: To fund legal challenges as they arise. At December 31, 2009 and 2008, the Legal Defense Fund totaled \$2,300,750 and \$2,766,194, respectively.

Operating Reserve Fund: To provide short-term financial stability for ARIN. The Operating Reserve Fund totaled \$1,322,677 and \$1,304,699, respectively, at December 31, 2009 and 2008.

Long-Term Reserve Fund: To provide long-term financial stability for ARIN. At December 31, 2009 and 2008, the Long-Term Reserve Fund totaled \$21,022,150 and \$15,682,071, 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.

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.

Accounts Receivable

Accounts receivable are recorded at cost and consist principally of registration fees. ARIN uses the allowance method to determine uncollectible accounts receivable. Management establishes an allowance for all outstanding receivables aged over ninety days. At December 31, 2009 and 2008, management established an allowance in the amount of \$50,000 and \$141,375, respectively.

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.

Software Costs

ARIN expenses preliminary project stage costs as incurred. Capitalized applications stage costs are amortized over five years using the straight-line method. Post-implementation and operation stage costs are expensed as incurred.

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 2009 and 2008.

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.

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 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.

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, 2009 and 2008, ARIN's uninsured cash balance was \$1,370,409 and \$246,000, respectively.

ARIN maintains investment accounts with brokerage institutions which are members of the Securities Investor Protection Corporation (SIPC). Security investments are subject to market fluctuations. ARIN monitors the investment portfolio to minimize risk associated with these investments and diversifies accordingly.

Subsequent Events

In preparing these financial statements, ARIN has evaluated events and transactions for potential recognition or disclosure through June 3, 2010, the date the financial statements were available to be issued.

3. Fair Value Measurements

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ARIN has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Money funds: Short-term securities valued at amortized cost, which approximates market value.

Exchange traded and closed-end funds: Valued at quoted market prices for similar assets and other observable inputs such as interest rates offered on similar investments.

Mutual funds: Valued at the net asset value (NAV) of shares held by ARIN at year-end.

Certificates of deposit: Valued at market prices based upon observable inputs such as interest rates.

The following table sets forth by level, within the fair value hierarchy, ARIN's investments at fair value at December 31, 2009 and 2008.

	Level 1	Level 2	Level 3	Total
December 31, 2009:				
Short-term cash investments	\$ 1,160,239	\$ -	\$ -	\$ 1,160,239
Exchange traded and closed-end funds	2,975,750	-	-	2,975,750
Mutual funds - balanced funds	18,018,308	-	-	18,018,308
Certificates of deposit	-	2,491,280	-	2,491,280
	<u>\$ 22,154,297</u>	<u>\$ 2,491,280</u>	<u>\$ -</u>	<u>\$ 24,645,577</u>

	Level 1	Level 2	Level 3	Total
December 31, 2008:				
Short-term cash investments	\$ 1,374,789	\$ -	\$ -	\$ 1,374,789
Exchange traded and closed-end funds	1,177,392	-	-	1,177,392
Mutual funds - balanced funds	14,504,864	-	-	14,504,864
Certificates of deposit	-	2,695,919	-	2,695,919
	<u>\$ 17,057,045</u>	<u>\$ 2,695,919</u>	<u>\$ -</u>	<u>\$ 19,752,964</u>

4. Property and Equipment

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

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 282,697	\$ 279,705
Office equipment	91,961	81,450
Computer equipment	2,376,402	2,825,214
Computer software	830,969	824,210
Database	680,327	-
Leasehold improvements	751,017	746,062
	<u>5,013,373</u>	<u>4,756,641</u>
Less – accumulated depreciation and amortization	<u>(3,020,888)</u>	<u>(2,867,863)</u>
	<u>\$ 1,992,485</u>	<u>\$ 1,888,778</u>

5. 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 2009 and 2008 was \$522,167 and \$308,941, respectively.

6. 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 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 2009 and 2008 was \$64,534 and \$41,668, respectively.

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 2009 and 2008, ARIN paid ICANN \$195,585 and \$247,723, respectively.

7. 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 \$22,497. 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 for the years ending December 31 are as follows:

2010	\$	285,721
2011		294,290
2012		<u>24,584</u>
	\$	<u>604,595</u>

Rent expense totaled \$258,056 and \$258,079 during 2009 and 2008, respectively.

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