

American Registry For Internet Numbers, Ltd.

Financial Report
December 31, 2013

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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, 2013 and 2012, and 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 of 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, 2013 and 2012, 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.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Gaithersburg, Maryland
April 9, 2014

American Registry For Internet Numbers, Ltd.

Statements Of Financial Position
December 31, 2013 And 2012

Assets	2013	2012
Cash And Cash Equivalents	\$ 2,756,988	\$ 1,201,441
Investments		
Legal Defense Reserve Fund	2,095,068	2,089,541
Operating Reserve Fund	2,838,991	3,588,560
Long-Term Reserve Fund	25,091,253	21,282,950
	30,025,312	26,961,051
Accounts Receivable, net	367,311	331,102
Prepaid Expenses	482,865	439,491
Property And Equipment, net	5,089,818	4,705,834
Software Costs	66,482	143,992
Deposits	91,839	73,659
	\$ 38,880,615	\$ 33,856,570
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 968,033	\$ 1,159,149
Due to ICANN	101,410	130,000
Due to APNIC	65,129	-
Due to AfriNIC	6,160	-
Due to NRO	-	28,682
Deferred rent	191,806	44,167
Deferred revenue	6,369,703	5,663,137
Total liabilities	7,702,241	7,025,135
Commitments (Note 7)		
Net Assets		
Unrestricted	31,178,374	26,831,435
	\$ 38,880,615	\$ 33,856,570

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Activities
Years Ended December 31, 2013 And 2012

	2013	2012
Revenue and support:		
Registrations	\$ 12,874,994	\$ 12,189,843
Maintenance fees	1,654,100	1,131,600
IP end-user registrations	1,046,562	1,277,750
Contributions	248,585	296,975
Network transfers	125,500	68,500
Membership dues	23,500	19,500
Other revenue	-	7,324
Total revenue and support	15,973,241	14,991,492
Operating expenses:		
Program services:		
Engineering	6,632,162	6,862,301
Member services	3,633,944	3,344,107
Registration services group	2,814,352	2,643,050
Total program services	13,080,458	12,849,458
Support services:		
General and administrative	2,439,542	2,702,056
Total operating expenses	15,520,000	15,551,514
Change in net assets before investment activities	453,241	(560,022)
Realized and unrealized gains on investments	2,897,666	2,102,745
Interest and dividends	996,032	632,804
Change in net assets	4,346,939	2,175,527
Unrestricted net assets, beginning of year	26,831,435	24,655,908
Unrestricted net assets, end of year	\$ 31,178,374	\$ 26,831,435

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

Statements Of Cash Flows
Years Ended December 31, 2013 And 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 4,346,939	\$ 2,175,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,010,915	1,794,733
Realized and unrealized gains in investments	(2,897,666)	(2,102,745)
Loss on disposal of property and equipment	-	161,919
Bad debt expense	89,219	94,126
Deferred rent	(5,098)	19,925
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(125,428)	(146,503)
Prepaid expenses	(43,374)	(13,285)
Software costs	77,510	238,371
Deposits	(18,180)	162,530
Increase (decrease) in:		
Accounts payable and accrued expenses	(191,116)	(243,832)
Due to ICANN	(28,590)	40,447
Due to APNIC	65,129	-
Due to AfriNIC	6,160	-
Due to NRO	(28,682)	28,682
Deferred revenue	706,566	(13,655)
Net cash provided by operating activities	3,964,304	2,196,240
Cash Flows From Investing Activities		
Property and equipment acquisitions	(2,394,899)	(1,950,898)
Proceeds from the sale of investments	5,970,837	824,863
Purchase of investments	(6,137,432)	(1,381,669)
Cash received from lessor	152,737	-
Collections on note receivable	-	90,000
Net cash used in investing activities	(2,408,757)	(2,417,704)
Net increase (decrease) in cash and cash equivalents	1,555,547	(221,464)
Cash And Cash Equivalents:		
Beginning	1,201,441	1,422,905
Ending	\$ 2,756,988	\$ 1,201,441

See Notes To Financial Statements.

American Registry For Internet Numbers, Ltd.

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 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.

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, where 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, 2013 and 2012.

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, 2013 and 2012, the Legal Defense Reserve Fund totaled \$2,095,068 and \$2,089,541, respectively.

Operating Reserve Fund: To provide short-term financial stability for ARIN. The Operating Reserve Fund totaled \$2,838,991 and \$3,588,560 at December 31, 2013 and 2012, respectively.

Long-Term Reserve Fund: To provide long-term financial stability for ARIN. At December 31, 2013 and 2012, the Long-Term Reserve Fund totaled \$25,091,253 and \$21,282,950, 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 exchange traded funds, mutual funds, and certificates of deposit. Such investments are exposed to various risks, such as market and credit. 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.

American Registry For Internet Numbers, Ltd.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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. Money market funds held in brokerage accounts are held at cost.

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, 2013 and 2012, management established an allowance in the amount of \$38,716 and \$58,078, 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.

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.

Impairment of long-lived assets: ARIN accounts for the valuation of long-lived assets under ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC 360 requires that long-lived assets and certain identifiable intangible assets be reviewed 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, 2013 and 2012, 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.

American Registry For Internet Numbers, Ltd.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

ARIN adopted the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return, should be recorded in the financial statements. Under this guidance, ARIN recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

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 2010.

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.

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.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through April 9, 2014, which is the date the financial statements were available to be issued.

American Registry For Internet Numbers, Ltd.

Notes To Financial Statements

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 and mutual 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.

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2013 and 2012.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity exchange traded funds	\$ 3,129,197	\$ -	\$ -	\$ 3,129,197
Mutual funds, balanced funds				
Bond fund	6,325,135	-	-	6,325,135
Growth funds	6,246,538	-	-	6,246,538
Blended funds	5,701,559	-	-	5,701,559
Foreign blended funds	1,188,782	-	-	1,188,782
Bank loan	1,094,191	-	-	1,094,191
Commodities funds	722,293	-	-	722,293
Multialternative	667,746	-	-	667,746
	<u>21,946,244</u>	<u>-</u>	<u>-</u>	<u>21,946,244</u>
Certificates of deposit	-	960,310	-	960,310
	<u>\$ 25,075,441</u>	<u>\$ 960,310</u>	<u>\$ -</u>	<u>\$ 26,035,751</u>

American Registry For Internet Numbers, Ltd.

Notes To Financial Statements

Note 2. Investments And Fair Value Measurements (Continued)

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity exchange traded funds	\$ 2,575,938	\$ -	\$ -	\$ 2,575,938
Taxable bond exchange traded fund	1,584,185	-	-	1,584,185
Mutual funds, balanced funds				
Bond fund	5,747,235	-	-	5,747,235
Blended funds	5,471,844	-	-	5,471,844
Growth funds	4,444,906	-	-	4,444,906
Commodities funds	848,735	-	-	848,735
Foreign blended funds	569,723	-	-	569,723
	17,082,443	-	-	17,082,443
Certificates of deposit	-	481,184	-	481,184
	<u>\$ 21,242,566</u>	<u>\$ 481,184</u>	<u>\$ -</u>	<u>\$ 21,723,750</u>

Money market funds of \$3,989,561 and \$5,237,301 as of December 31, 2013 and 2012, respectively, are not included in the total investments as they are carried at cost.

Note 3. Note Receivable

In October 2010, ARIN executed a loan agreement of up to \$180,000 with NewNOG, Inc. under commercial terms to provide for Executive Director services during its early formation period. The agreement provided advances to NewNog of up to \$30,000 on a quarterly basis through January 1, 2012. Interest accrued on the outstanding balance at an annual rate of 2%. Repayments of the loan commenced on October 1, 2012, in equal quarterly principal and interest payments pursuant to a 25-month amortization schedule. Full payment of the outstanding balance was due by January 1, 2014. The note, however, was repaid in full during the year ended December 31, 2012.

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2013 and 2012, are as follows:

	2013	2012
Database	\$ 7,671,804	\$ 6,046,572
Computer equipment	3,982,907	3,478,156
Computer software	718,546	694,878
Furniture and fixtures	328,270	315,766
Office equipment	86,617	101,423
Leasehold improvements	950,503	751,017
	<u>13,738,647</u>	<u>11,387,812</u>
Less accumulated depreciation and amortization	<u>(8,648,829)</u>	<u>(6,681,978)</u>
	<u>\$ 5,089,818</u>	<u>\$ 4,705,834</u>

American Registry For Internet Numbers, Ltd.

Notes To Financial Statements

Note 5. 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 for 2013 and 2012 was \$771,921 and \$706,825, respectively.

Note 6. 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 2013 and 2012 ARIN paid ICANN \$174,229 and \$183,444, 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 2013 and 2012 were \$117,146 and \$50,153, respectively.

Note 7. Commitments

Lease commitments: During 2011, ARIN amended their 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 \$20,349. The base rent is subject to an annual escalation percentage of 3% and increases in its proportionate share of operating expense. Deferred rent is recorded in relation to the escalating lease payments. During the year ended December 31, 2013, ARIN utilized \$152,737 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.

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

Years Ending December 31,	
2014	\$ 258,426
2015	266,179
2016	274,164
2017	282,389
2018	290,861
2019	24,297
	<u>\$ 1,396,316</u>

Rent expense totaled \$246,412 and \$263,516 during 2013 and 2012, respectively.

Severance agreement commitments: ARIN provides various severance plans to employees within various levels of the organization 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, 2013 and 2012, 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.

McGladrey LLP

Gaithersburg, Maryland
April 9, 2014

American Registry For Internet Numbers, Ltd.

Schedules Of Operating Expenses
Years Ended December 31, 2013 And 2012

	2013	2012
Salaries and employee benefits	\$ 7,592,721	\$ 7,759,653
Hiring costs	51,149	28,465
Personnel	7,643,870	7,788,118
Depreciation and amortization	2,010,915	1,794,733
Communications	781,886	679,461
Equipment support and licenses	349,714	480,181
Operations	3,142,515	2,954,375
Travel	1,223,935	1,005,456
General office	751,616	893,216
Outreach expense	443,083	374,775
Members meeting	439,129	437,850
Legal expense	404,923	738,449
Rent and occupancy	392,531	405,492
Consulting expense	312,808	327,679
Contingency expense	-	3,761
General office and administrative	3,968,025	4,186,678
Internet research and support	248,512	201,647
ASO support and AC support	225,703	187,099
ICANN support	174,229	183,444
NRO	117,146	50,153
Internet support	765,590	622,343
	\$ 15,520,000	\$ 15,551,514