

American Registry for Internet Numbers, Ltd.

Financial Report
December 31, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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.

McGladrey LLP

McLean, Virginia
April 8, 2015

American Registry for Internet Numbers, Ltd.

**Statements of Financial Position
December 31, 2014 and 2013**

	2014	2013
Assets		
Cash and Cash Equivalents	\$ 2,779,518	\$ 2,756,988
Investments		
Legal Defense Reserve Fund	2,078,739	2,095,068
Operating Reserve Fund	2,837,447	2,838,991
Long-Term Reserve Fund	26,956,173	25,091,253
	<u>31,872,359</u>	<u>30,025,312</u>
Accounts Receivable, Net	461,396	367,311
Prepaid Expenses	490,870	482,865
Property and Equipment, Net	5,754,922	5,089,818
Software Costs	83,556	66,482
Deposits	101,369	91,839
	<u>\$ 41,543,990</u>	<u>\$ 38,880,615</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,212,927	\$ 968,033
Due to ICANN	112,463	101,410
Due to APNIC	-	65,129
Due to AfriNIC	-	6,160
Due to NRO	76,442	-
Deferred revenue	6,751,995	6,369,703
Deferred rent	179,188	191,806
Total liabilities	<u>8,333,015</u>	<u>7,702,241</u>
Commitments (Note 6)		
Net Assets		
Unrestricted	<u>33,210,975</u>	<u>31,178,374</u>
	<u>\$ 41,543,990</u>	<u>\$ 38,880,615</u>

See Notes to Financial Statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue and Support		
Registrations	\$ 13,910,021	\$ 12,874,994
Maintenance fees	2,065,800	1,654,100
IP end-user registrations	734,250	1,046,562
Contributions	234,100	248,585
Network transfers	206,250	125,500
Membership dues	27,500	23,500
Other revenue	2,299	-
Total revenue and support	17,180,220	15,973,241
Operating Expenses		
Program services:		
Engineering	7,002,847	6,632,162
Member services	3,818,975	3,633,944
Registration services group	2,984,946	2,814,352
Total program services	13,806,768	13,080,458
Support services:		
General and administrative	2,523,152	2,439,542
Total operating expenses	16,329,920	15,520,000
Change in net assets before investment activities	850,300	453,241
Realized and Unrealized Gains (Losses) on Investments	(403,586)	2,897,666
Interest and Dividends	1,585,887	996,032
Change in net assets	2,032,601	4,346,939
Unrestricted Net Assets, Beginning of Year	31,178,374	26,831,435
Unrestricted Net Assets, End of Year	\$ 33,210,975	\$ 31,178,374

See Notes to Financial Statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 2,032,601	\$ 4,346,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,315,994	2,010,915
Realized and unrealized losses (gains) in investments	403,586	(2,897,666)
(Gain) on disposal of property and equipment	(23)	-
Bad debt expense	44,283	89,219
Deferred rent	(22,356)	(5,098)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(138,368)	(125,428)
Prepaid expenses	(8,005)	(43,374)
Software costs	(17,074)	77,510
Deposits	(9,530)	(18,180)
Increase (decrease) in:		
Accounts payable and accrued expenses	244,894	(191,116)
Due to ICANN	11,053	(28,590)
Due to APNIC	(65,129)	65,129
Due to AfriNIC	(6,160)	6,160
Due to NRO	76,442	(28,682)
Deferred revenue	382,292	706,566
Net cash provided by operating activities	5,244,500	3,964,304
Cash Flows From Investing Activities		
Property and equipment acquisitions	(2,981,870)	(2,394,899)
Proceeds from the sale of equipment	795	-
Proceeds from the sale of investments	4,953,933	5,970,837
Purchase of investments	(7,204,566)	(6,137,432)
Cash received from lessor	9,738	152,737
Net cash used in investing activities	(5,221,970)	(2,408,757)
Net increase in cash and cash equivalents	22,530	1,555,547
Cash and Cash Equivalents		
Beginning	2,756,988	1,201,441
Ending	\$ 2,779,518	\$ 2,756,988

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, 2014 and 2013.

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, 2014 and 2013, the Legal Defense Reserve Fund totaled \$2,078,739 and \$2,095,068, respectively.

Operating Reserve Fund: To provide short-term financial stability for ARIN. At December 31, 2014 and 2013, the Operating Reserve Fund totaled \$2,837,447 and \$2,838,991, respectively.

Long-Term Reserve Fund: To provide long-term financial stability for ARIN. At December 31, 2014 and 2013, the Long-Term Reserve Fund totaled \$26,956,173 and \$25,091,253, 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, 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.

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.

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, 2014 and 2013, management established an allowance in the amount of \$42,750 and \$38,716, 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 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, 2014 and 2013, 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 2011.

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.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through April 8, 2015, 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, 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.

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

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, 2014 and 2013.

Description	December 31, 2014			Total
	Level 1	Level 2	Level 3	
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
	<u>22,562,814</u>	<u>-</u>	<u>-</u>	<u>22,562,814</u>
Equity exchange traded funds	4,403,448	-	-	4,403,448
Certificates of deposit	-	3,474,666	-	3,474,666
Money market funds	1,431,431	-	-	1,431,431
	<u>\$ 28,397,693</u>	<u>\$ 3,474,666</u>	<u>\$ -</u>	<u>\$ 31,872,359</u>

Description	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Mutual funds, balanced funds				
Bond fund	\$ 6,325,135	\$ -	\$ -	\$ 6,325,135
Growth funds	6,246,538	-	-	6,246,538
U.S. 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>
Money market funds	3,989,561	-	-	3,989,561
Equity exchange traded funds	3,129,197	-	-	3,129,197
Certificates of deposit	-	960,310	-	960,310
	<u>\$ 29,065,002</u>	<u>\$ 960,310</u>	<u>\$ -</u>	<u>\$ 30,025,312</u>

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2014 and 2013, are as follows:

	2014	2013
Database	\$ 9,507,865	\$ 7,671,804
Computer equipment	5,097,690	3,982,907
Computer software	744,648	718,546
Furniture and fixtures	324,417	328,270
Office equipment	88,455	86,617
Leasehold improvements	950,503	950,503
	<u>16,713,578</u>	<u>13,738,647</u>
Less accumulated depreciation and amortization	10,958,656	8,648,829
	<u>\$ 5,754,922</u>	<u>\$ 5,089,818</u>

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% of the first 3% of salary deferred and 100% of the next 3% deferred. Total retirement plan contribution for 2014 and 2013, was \$836,225 and \$771,921, 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 2014 and 2013, ARIN paid ICANN \$235,979 and \$174,229, 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 2014 and 2013 were \$136,465 and \$117,146, respectively.

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

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% and increases in its proportionate share of operating expense. Deferred rent is recorded in relation to the escalating lease payments. As of December 31, 2014, 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.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 266,179
2016	274,164
2017	282,389
2018	290,861
2019	24,297
	<u>\$ 1,137,890</u>

Rent expense totaled \$235,460 and \$246,412 during 2014 and 2013, 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, 2014 and 2013, 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

McLean, Virginia
April 8, 2015

American Registry for Internet Numbers, Ltd.

Schedules of Operating Expenses
Years Ended December 31, 2014 and 2013

	2014	2013
Salaries and Employee Benefits	\$ 8,048,158	\$ 7,592,721
Hiring Costs	8,675	51,149
Personnel	8,056,833	7,643,870
Depreciation and Amortization	2,315,994	2,010,915
Communications	829,719	781,886
Equipment Support and Licenses	421,290	349,714
Operations	3,567,003	3,142,515
Travel	1,139,692	1,223,935
General Office	728,587	751,616
Outreach Expense	389,857	443,083
Members Meeting	410,551	439,129
Legal Expense	511,966	404,923
Rent and Occupancy	383,734	392,531
Consulting Expense	335,194	312,808
General office and administrative	3,899,581	3,968,025
Internet Research and Support	194,709	248,512
ASO Support and AC Support	239,350	225,703
ICANN Support	235,979	174,229
NRO	136,465	117,146
Internet support	806,503	765,590
	\$ 16,329,920	\$ 15,520,000