

Financial Statements
Years Ended
December 31, 2008 and 2007

American Registry for Internet
Numbers, Ltd.

Goodman
& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

American Registry for Internet Numbers, Ltd.

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Report of Independent Auditors

Board of Directors
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, 2008 and 2007, 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, 2008 and 2007, 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

McLean, Virginia
April 23, 2009

American Registry for Internet Numbers, Ltd.

Statements of Financial Position

December 31,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 682,126	\$ 374,277
Investments	19,752,964	26,276,735
Accounts receivable - net	198,419	14,626
Prepaid expenses	615,620	277,211
Total current assets	21,249,129	26,942,849
Property and equipment - net	1,888,778	1,329,514
Other assets	41,533	20,500
Money market fund designated to meet ICANN liability	-	758,013
Security deposit	60,934	58,844
	\$ 23,240,374	\$ 29,109,720
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,109,530	\$ 1,155,690
Due to ICANN	146,420	755,434
Deferred rent	83,308	94,540
Deferred revenue	4,513,676	4,033,452
Other current liabilities	1,625	7,451
Total current liabilities	5,854,559	6,046,567
Unrestricted net assets	17,385,815	23,063,153
	\$ 23,240,374	\$ 29,109,720

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

American Registry for Internet Numbers, Ltd.

Statements of Activities

Years Ended December 31,	2008	2007
Revenue and support		
Registrations	\$ 9,889,400	\$ 9,498,769
IP end-user registrations	555,250	488,500
Maintenance fees	988,566	884,488
Contributions	11,035	39,747
Other revenue	3,836	7,467
Membership dues	31,500	64,800
Network transfers	94,245	85,000
Total revenue and support	11,573,832	11,068,771
Operating expenses (see schedules)		
Program services:		
Engineering	4,535,564	3,758,677
Registration services group	1,914,918	1,925,622
Member services	2,516,609	2,258,223
Outreach services	415,078	-
Total program services	9,382,169	7,942,522
Support services:		
General and administrative	1,874,487	1,882,967
Total operating expenses	11,256,656	9,825,489
Change in net assets before investment activities	317,176	1,243,282
Interest and dividends	1,294,564	936,873
Realized and unrealized gains (losses) on investments	(7,289,078)	469,675
Change in net assets	(5,677,338)	2,649,830
Unrestricted net assets - beginning of year	23,063,153	20,413,323
Unrestricted net assets - end of year	\$ 17,385,815	\$ 23,063,153

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,	2008	2007
Salaries and employee benefits	\$ 5,683,320	\$ 4,776,335
Hiring costs	112,739	4,494
Personnel	5,796,059	4,780,829
Depreciation and amortization	653,193	350,320
Communications	495,108	389,870
Equipment support and licenses	227,505	183,087
Operations	1,375,806	923,277
Travel	946,362	908,055
Rent and occupancy	383,721	374,846
General office	523,182	283,996
Legal expense	489,221	672,314
Members meeting	462,977	283,489
Contingency expense	98,099	179,215
Consulting expense	444,318	522,048
Legal defense fund	-	204,652
General office and administrative	3,347,880	3,428,615
ICANN support	247,723	290,191
Internet research and support	223,527	119,805
NRO	41,668	41,478
ASO support and AC support	223,993	241,294
Internet support	736,911	692,768
	\$ 11,256,656	\$ 9,825,489

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,	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (5,677,338)	\$ 2,649,830
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	653,193	350,320
Realized and unrealized (gains) losses on investments	7,289,078	(469,675)
Loss on disposal of property and equipment	3,528	1,407
Bad debt expense	141,375	-
Change in:		
Accounts receivable	(325,168)	1,654
Prepaid expenses	(338,409)	(32,679)
Other assets	(21,033)	(20,500)
Escrow - deposit	758,013	103,635
Security deposit	(2,090)	(2,018)
Accounts payable and accrued expenses	(46,160)	604,035
Due to ICANN	(609,014)	(93,661)
Deferred rent	(11,232)	10,428
Deferred revenue	480,225	198,656
Other current liabilities	(5,826)	(6,900)
Net cash from operating activities	2,289,142	3,294,532
Cash flows from investing activities		
Property and equipment acquisitions	(1,215,985)	(931,924)
Interest and dividends retained in investments	(1,292,960)	(869,819)
Proceeds from the sale of investments	1,027,652	-
Purchase of investments	(500,000)	(2,300,000)
Net cash from investing activities	(1,981,293)	(4,101,743)
Net change in cash and cash equivalents	307,849	(807,211)
Cash and cash equivalents - beginning of year	374,277	1,181,488
Cash and cash equivalents - end of year	\$ 682,126	\$ 374,277

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

American Registry for Internet Numbers, Ltd.

Notes to Financial Statements

December 31, 2008 and 2007

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, 2008 and 2007.

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, 2008, management established an allowance in the amount of \$141,375. At December 31, 2007, management considered all amounts to be fully collectible.

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 has adopted Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. Preliminary project stage costs are expensed 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 2008 and 2007.

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. It is the organization's policy to reserve for overdue amounts.

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, 2008 and 2007, ARIN's uninsured cash balance was \$246,000 and \$353,886, 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.

3. Fair Value Measurement

Effective January 1, 2008, ARIN adopted Statement of Financial Account Standards No. 157, *Fair Value Measurement* (SFAS 157), for measuring and reporting financial assets and liabilities at fair value. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 established a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

Level 1 – quoted prices in active market for identical assets or liabilities as of the reporting date;

Level 2 – quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves);

Level 3 – uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

The table below summarizes investments, by level, for items measured at fair value on a recurring basis at December 31, 2008 and 2007.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2008:			
Short-term cash investments	\$ 1,374,789	\$ -	\$ -
Mutual funds – balanced funds	15,682,256	-	-
Certificates of deposit	2,695,919	-	-
	<u>\$ 19,752,964</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2007:			
Short-term cash investments	\$ 457,811	\$ -	\$ -
Mutual funds – balanced funds	21,420,198	-	-
Certificates of deposit	4,398,726	-	-
	<u>\$ 26,276,735</u>	<u>\$ -</u>	<u>\$ -</u>

4. Money Market Fund - ICANN

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. The decision to contribute is determined by ARIN on an annual basis. At December 31, 2007, \$755,434 was held in a money market fund for the benefit of ICANN. At December 31, 2008, amounts had not been segregated to pay ICANN.

5. Property and Equipment

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

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 279,705	\$ 243,942
Office equipment	81,450	81,450
Computer equipment	2,825,214	2,655,646
Computer software	824,210	479,896
Leasehold improvements	746,062	734,982
	<u>4,756,641</u>	<u>4,195,916</u>
Less – accumulated depreciation and amortization	<u>(2,867,863)</u>	<u>(2,866,402)</u>
	<u>\$ 1,888,778</u>	<u>\$ 1,329,514</u>

6. 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 2008 and 2007 was \$308,941 and \$395,349, respectively.

7. 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 superceded 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 2008 and 2007 was \$41,668 and \$41,478, respectively.

8. 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 at December 31 are as follows:

2009	\$	277,436
2010		285,721
2011		294,290
2012		<u>24,584</u>
	\$	<u>882,031</u>

Rent expense totaled \$258,079 and \$258,099 during 2008 and 2007, respectively.

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