American Registry for Internet Numbers, Ltd.

Financial Report
December 31, 2018

Contents

Independent Auditor's Report

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

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, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended December 31, 2018, 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 ARIN as of December 31, 2018 and 2017, and the changes 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.

Emphasis of Matter

As discussed in Note 1 of the financial statements, the Board of Trustees retroactively adopted the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
March 29, 2019

American Registry for Internet Numbers, Ltd.

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	**$ 3,724,754**	$ 1,553,480
Investments:		
Legal defense reserve fund	**2,158,860**	2,126,689
Operating reserve fund	**1,563,502**	1,623,209
Long-term reserve fund	**19,920,114**	25,819,281
	23,642,476	29,569,179
Accounts receivable, net	**373,911**	371,850
Prepaid expenses	**760,782**	751,900
Property and equipment, net	**10,175,152**	10,448,735
Deposits	**188,471**	140,851
	$ 38,865,546	$ 42,835,995
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,757,397**	$ 1,654,932
Due to ICANN	**106,348**	123,720
Due to NRO	**103,070**	186,592
Deferred revenue	**7,308,149**	7,226,101
Deferred rent	**2,174,312**	2,361,559
Total liabilities	**11,449,276**	11,552,904
Commitments (Notes 4, 5 and 6)		
Net assets without donor restrictions:		
Undesignated	**3,773,794**	1,713,912
Designated by the Board	**23,642,476**	29,569,179
Total net assets	**27,416,270**	31,283,091
	$ 38,865,546	$ 42,835,995

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue and support:		
Registrations	**$ 15,583,152**	$ 14,343,917
Maintenance fees	**3,315,725**	2,513,925
IP end-user registrations	**169,750**	157,000
Contributions	**263,600**	257,600
Network transfers	**346,700**	355,600
Membership dues	**29,500**	24,500
Other revenue	**17,186**	6,036
Total revenue and support	**19,725,613**	17,658,578
Operating expenses:		
Program services:		
Engineering	**11,598,710**	11,527,639
Member services	**4,317,849**	3,956,825
Registration services group	**3,561,330**	3,465,222
Total program services	**19,477,889**	18,949,686
Support services:		
General and administrative	**2,687,842**	2,496,363
Total operating expenses	**22,165,731**	21,446,049
Change in net assets before investment (loss) income	**(2,440,118)**	(3,787,471)
Investment (loss) income, net	**(1,426,703)**	3,793,418
Change in net assets	**(3,866,821)**	5,947
Net assets without donor restrictions:		
Beginning	**31,283,091**	31,277,144
Ending	**$ 27,416,270**	$ 31,283,091

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statement of Functional Expenses
Year Ended December 31, 2018
(With Comparative Totals for 2017

	Program Services				Support Services		
	Engineering	Member Services	Registration Services Group	Subtotal Program Services	General and Administrative	2018	2017
Salaries and employee benefits	$ 6,022,492	$ 2,233,792	$ 2,336,682	$ 10,592,966	$ 1,848,584	$ 12,441,550	$ 11,570,479
Travel	741,320	226,695	236,173	1,204,188	43,378	1,247,566	1,306,262
Members meeting	-	615,147	-	615,147	-	615,147	719,154
Telecommunications	849,748	30,425	10,810	890,983	11,554	902,537	899,376
Maintenance and operations	624,515	-	-	624,515	-	624,515	737,519
Depreciation and amortization	1,944,852	554,800	553,865	3,053,517	464,033	3,517,550	3,435,677
Rent and occupancy	279,503	79,679	79,723	438,905	66,644	505,549	571,362
General office	329,544	89,243	121,621	540,408	73,409	613,817	628,459
Legal	298,486	86,761	86,609	471,856	72,306	544,162	439,266
ICANN support	124,046	35,563	36,139	195,748	-	195,748	242,955
Internet support	124,831	88,001	38,839	251,671	-	251,671	187,748
Consulting	259,373	67,819	60,869	388,061	107,934	495,995	514,435
Outreach and public relations	-	209,924	-	209,924	-	209,924	193,357
	$ 11,598,710	$ 4,317,849	$ 3,561,330	$ 19,477,889	$ 2,687,842	$ 22,165,731	$ 21,446,049

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (3,866,821)**	$ 5,947
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**3,517,550**	3,435,677
Realized and unrealized loss (gain) on investments	**2,317,128**	(3,052,044)
Loss (gain) on disposal of property and equipment	**9,287**	(35,363)
Increase (decrease) in allowance for doubtful accounts	**20,462**	(45,712)
Deferred rent	**(187,247)**	211,346
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(22,523)**	40,171
Prepaid expenses	**(8,882)**	57,157
Deposits	**(47,620)**	(10,467)
Increase (decrease) in:		
Accounts payable and accrued expenses	**102,465**	(517,143)
Due to ICANN	**(17,372)**	1,500
Due to NRO	**(83,522)**	(57,847)
Deferred revenue	**82,048**	533,230
Net cash provided by operating activities	**1,814,953**	566,452
Cash flows from investing activities:		
Property and equipment acquisitions	**(3,253,511)**	(3,570,880)
Proceeds from the sale of equipment	**257**	1,755
Proceeds from the sale of investments	**4,583,181**	4,584,069
Purchase and reinvestments of investments	**(973,606)**	(823,438)
Net cash provided by investing activities	**356,321**	191,506
Net increase in cash and cash equivalents	**2,171,274**	757,958
Cash and cash equivalents:		
Beginning	**1,553,480**	795,522
Ending	**$ 3,724,754**	$ 1,553,480

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: American Registry for Internet Numbers, Ltd. (ARIN) was established on August 28, 1997, and began operations on December 22, 1997. ARIN, a not-for-profit member-based organization, supports the operation of the Internet through the management of Internet number resources throughout its service region, which is Canada, the United States and several islands in the Caribbean Sea and North Atlantic Ocean. ARIN coordinates the development of policies by the community for the management of Internet Protocol (IP) number resources and advances the Internet through information and educational outreach.

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

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

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). Under this topic, ARIN is required to report information regarding its financial position and activities within two classes of net assets:

Net assets without donor restrictions: Undesignated net assets represent funds that are available for the support of ARIN's operations and are not subject to donor restrictions. The Board of Trustees (the Board) may designate net assets without donor restrictions at its discretion. Board-designated net assets include funds designated for specific programs. The balance at December 31, 2018 and 2017, was $23,642,476 and $29,569,179, respectively.

Net assets with donor restrictions: Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction was restricted has been fulfilled or both. ARIN had no net assets with donor restrictions at December 31, 2018 and 2017.

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 approval and are reported with investments.

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

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

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

Investments: ARIN includes in investments all accounts, including cash equivalents and money market funds, which are managed by investment advisors. Investments are recorded at fair market value and realized and unrealized gains and losses are reported in the accompanying statements of activities net of investment expenses incurred.

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, 2018 and 2017, management established an allowance in the amount of $53,250 and $32,788, respectively.

Property and equipment: ARIN capitalizes all property and equipment purchased with a cost of $1,000 or more. Expenditures for additions, renewals and improvements are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of property, the cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in operations.

Leasehold improvements are amortized over the shorter of the expected useful life of the improvement or the remaining lease term. Depreciation of property and equipment is provided for using the straight-line method over the estimated useful life of the assets, which range from three to five years.

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

Impairment of long-lived assets: ARIN reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2018 and 2017, 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 statements of financial position represents the cumulative difference between the monthly rent expense and rent paid. ARIN’s office leases provide for certain incentives in the form of a landlord improvement allowance provided for leasehold improvements. This benefit is also recognized in deferred rent and is being amortized on a straight-line basis over the life of the lease.

Deferred revenue: Payments received in advance of the period in which it is earned is deferred to subsequent periods. Deferred revenue is comprised principally of registration fees received in advance.

Income taxes: ARIN is a qualifying not-for-profit organization as defined in Section 501(c)(6) of the Internal Revenue Code and is exempt from federal income taxes. ARIN did not have any unrelated business income the years ended December 31, 2018 and 2017. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

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

Management evaluated ARIN's tax positions and concluded that ARIN had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, ARIN is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

Revenue recognition: Registrations revenue of Autonomous System Number and IP registrations are recognized in the applicable period. Resources are not issued until payment is received.

Both initial and renewal registrations 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.

Unconditional contributions received are recorded as an increase in net assets with or without donor restrictions depending on the existence and/or nature of any donor restrictions in the period acknowledged. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets with a donor time and/or purpose restriction are reclassified to net assets without donor restriction reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions are reported as net assets without donor restriction is the restrictions are met in the same period received. 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.

Adoption of recent accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The ASU is effective for fiscal years beginning after December 15, 2017. The changes in this ASU should generally be applied on a retrospective basis in the year the ASU is first applied. Management adopted this guidance in its December 31, 2018 financial statements. The amendments in this ASU makes improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. Net asset classifications are reduced from three to two categories: net assets without donor restrictions and net assets with donor restrictions. The nature and amount of net assets with and without donor restrictions are included as footnote disclosures. Additional quantitative and qualitative disclosures are required communicate information related to ARIN's short-term liquidity.

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

Additionally, ARIN is required to present expenses by both function and nature within the financial statements. To meet this requirement, a statement of functional expenses was added in 2018. The ASU does not require comparative information of this statement in year of adoption but ARIN has decided to present this statement with comparative totals relative to the natural expenses. Also, investment income is shown net of investment fees. The remaining provisions are not applicable to ARIN's financial statement presentation.

Pending accounting pronouncements: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where ARIN is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Where ARIN is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. ARIN is currently evaluating the impact of the adoption of this guidance on its financial statements. The adoption of ASU 2018-08 is not expected to have a material impact on the ARIN's financial statements.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. ARIN has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Reclassification: Certain items in the 2017 information have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: In preparing these financial statements, ARIN has evaluated subsequent events through March 29, 2019, which is the date the financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

In accordance with the FASB ASC guidance, 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.

ARIN investments are categorized as follows:

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

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

Note 2. Investments and Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2018:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond fund	$ 5,296,295	$ -	$ -	$ 5,296,295
Growth funds	4,022,451	-	-	4,022,451
Foreign blended funds	3,203,054	-	-	3,203,054
U.S. blended funds	2,236,172	-	-	2,236,172
Multialternative	849,341	-	-	849,341
Bank loan	697,174	-	-	697,174
	16,304,487	-	-	16,304,487
Equity exchange traded funds	3,614,560	-	-	3,614,560
Certificates of deposit	-	2,611,080	-	2,611,080
Money market funds	290,968	-	-	290,968
	$ 20,210,015	$ 2,611,080	$ -	$ 22,821,095

The table below reconciles total investments to the statement of financial position at December 31, 2018:

Investments held at fair value	$ 22,821,095
Investments held at cost	821,381
	$ 23,642,476

Cash accounts maintained in brokerage accounts totaling $821,381 are not included in the above table because they are recorded at cost.

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2017:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond fund	$ 6,101,890	$ -	$ -	$ 6,101,890
Growth funds	5,743,921	-	-	5,743,921
Foreign blended funds	4,354,895	-	-	4,354,895
U.S. blended funds	2,508,563	-	-	2,508,563
Multialternative	1,083,009	-	-	1,083,009
Bank loan	995,930	-	-	995,930
	20,788,208	-	-	20,788,208
Equity exchange traded funds	5,029,842	-	-	5,029,842
Certificates of deposit	-	2,402,109	-	2,402,109
Money market funds	286,103	-	-	286,103
	$ 26,104,153	$ 2,402,109	$ -	$ 28,506,262

Note 2. Investments and Fair Value Measurements (Continued)

The table below reconciles total investments to the statement of financial position at December 31, 2017:

Investments held at fair value	$ 28,506,262
Investments held at cost	1,062,917
	$ 29,569,179

Cash accounts maintained in brokerage accounts totaling $1,062,917 are not included in the above table because they are recorded at cost.

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2018 and 2017, are as follows:

	2018	2017
ARIN online database	$ 19,727,669	$ 17,251,970
Computer equipment	5,590,410	5,738,760
Computer software	849,358	810,026
Furniture and fixtures	503,834	503,834
Office equipment	34,816	33,696
Software (in process)	813,357	466,346
Leasehold improvements	2,348,632	2,303,868
	29,868,076	27,108,500
Less accumulated depreciation and amortization	(19,692,924)	16,659,765
	$ 10,175,152	$ 10,448,735

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 2018 and 2017 was $1,345,595 and $1,337,836, 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 2018 and 2017, ARIN paid ICANN $195,749 and $242,955, respectively.

On October 24, 2003, the four Regional Internet Registries (RIR) 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.

Note 5. Related Party Transactions (Continued)

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 2018 and 2017 were $92,551 and $41,603, respectively.

Note 6. Commitments

Lease commitments: ARIN entered into a new lease agreement in December 2015 for new office space in Chantilly, Virginia. The lease commenced in August 2016 and expires in January 2027 with a base monthly rental payment of $54,579. Rent payments commenced on the one-year anniversary of the lease commencement date. The base rent is subject to an annual escalation percentage of 2.5% and increases in its proportionate share of operating expense.

Deferred rent is recorded in relation to the escalating lease payments. The lease provides two optional renewal terms of five years each. ARIN also utilized $1,930,153 of the tenant improvement allowances provided by the lease. This allowance is included with property and equipment, net in the accompanying statements of financial position and is being amortized over the life of the lease. A deferred rent liability is recorded on the statements 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:		
2019	$	695,244
2020		712,667
2021		730,496
2022		748,689
2023		767,395
Thereafter		2,489,443
	$	6,143,934

Rent expense totaled $498,671 and $491,087 during 2018 and 2017, respectively.

Severance agreement commitments: ARIN provides various severance plans to employees within various levels of the organization under specific conditions and for various time periods up to 12 months.

Note 7. Liquidity and Availability of Financial Assets

ARIN regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	$ 3,724,754
Accounts receivable, net	373,911
Investments	23,642,476
Total financial assets available	27,741,141
Amounts designated by the Board	(23,642,476)
Financial assets available to meet cash needs for general expenditures within one year	$ 4,098,665

ARIN has various sources of liquidity at its disposal, including cash and cash equivalents, and long-term equity funds.

The Board has designated without net assets for the following purposes:

Legal defense reserve fund: Funds legal challenges as they arise. At December 31, 2018 and 2017, the legal defense reserve fund totaled $2,158,860 and $2,126,689, respectively.

Operating reserve fund: Provides short-term financial stability for ARIN. At December 31, 2018 and 2017, the operating reserve fund totaled $1,563,502 and $1,623,209, respectively.

Long-term reserve fund: Provides long-term financial stability for ARIN. At December 31, 2018 and 2017, the long-term reserve fund totaled $19,920,114 and $25,819,281, respectively.

The board-designated reserve is not subject to an annual spend rate. Although ARIN does not intend to spend from these board designated reserve funds (other than amounts appropriated for general expenditure as part of ARIN's annual budget approval and appropriation), these amounts could be made available through board approval if necessary.

As part of liquidity management, ARIN invests cash in excess of daily requirements in short-term investments. ARIN assesses its operating budget and cash flow projections monthly to monitor the availability of resources to support operations.