American Registry for Internet Numbers, Ltd.

Financial Report
December 31, 2019

Contents

RSM US LLP

Independent Auditor's Report

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, 2019 and 2018, the related statements of activities, functional expenses, 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 ARIN as of December 31, 2019 and 2018, 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, ARIN adopted the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and applied the standard on a modified retrospective basis. Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
May 21, 2020

American Registry for Internet Numbers, Ltd.

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 1,466,396	$ 3,724,754
Investments:		
Legal defense reserve fund	2,214,849	2,158,860
Operating reserve fund	1,562,263	1,563,502
Long-term reserve fund	26,115,666	19,920,114
	29,892,778	23,642,476
Accounts receivable, net	277,329	373,911
Prepaid expenses	676,228	760,782
Property and equipment, net	9,586,989	10,175,152
Deposits	116,930	188,471
	$ 42,016,650	$ 38,865,546
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,780,032	$ 1,757,397
Due to ICANN	114,150	106,348
Due to NRO	-	103,070
Due to APNIC	110,319	-
Deferred revenue	9,263,858	7,308,149
Deferred rent	1,970,154	2,174,312
Total liabilities	13,238,513	11,449,276
Commitments and Contingencies (Notes 5 and 6)		
Net assets without donor restrictions:		
Undesignated (deficit)	(1,114,641)	3,773,794
Designated by the Board	29,892,778	23,642,476
Total net assets	28,778,137	27,416,270
	$ 42,016,650	$ 38,865,546

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenue and support:		
Registration maintenance fees	**$ 18,294,251**	$ 17,736,901
Registration allocation and assignment fees	**1,315,263**	1,331,726
Network transfers	**353,100**	346,700
Contributions	**287,400**	263,600
Other revenue	**54,018**	46,686
Total revenue and support	**20,304,032**	19,725,613
Operating expenses:		
Program services:		
Engineering	**10,222,080**	11,598,710
Member services	**4,596,708**	4,317,849
Registration services group	**3,813,759**	3,561,330
Total program services	**18,632,547**	19,477,889
Support services:		
General and administrative	**2,840,572**	2,687,842
Total operating expenses	**21,473,119**	22,165,731
Change in net assets before investment income (loss), net	**(1,169,087)**	(2,440,118)
Investment income (loss), net	**4,250,302**	(1,426,703)
Change in net assets	**3,081,215**	(3,866,821)
Net assets without donor restrictions:		
Beginning	**27,416,270**	31,283,091
Cumulative effect of adoption of ASC 606 (Note 1)	**(1,719,348)**	-
Ending	**$ 28,778,137**	$ 27,416,270

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Support Services	
	Engineering	Member Services	Registration Services Group	Subtotal Program Services	General and Administrative	Total
Salaries and employee benefits	$ 4,970,643	$ 2,374,134	$ 2,416,613	$ 9,761,390	$ 1,915,044	$ 11,676,434
Travel	554,175	191,602	206,979	952,756	30,900	983,656
Members meeting	78,219	648,048	-	726,267	-	726,267
Telecommunications	879,885	29,237	13,839	922,961	12,507	935,468
Maintenance and operations	616,662	-	-	616,662	-	616,662
Depreciation and amortization	1,707,302	649,215	627,075	2,983,592	518,477	3,502,069
Rent and occupancy	248,186	94,267	91,155	433,608	75,337	508,945
General office	337,858	119,572	158,314	615,744	97,880	713,624
Legal	216,934	85,914	79,107	381,955	68,123	450,078
ICANN support	126,846	47,391	47,653	221,890	-	221,890
Internet support	143,662	102,282	56,337	302,281	-	302,281
Consulting	289,375	92,397	98,407	480,179	108,273	588,452
Outreach and public relations	52,333	162,649	18,280	233,262	14,031	247,293
	$ 10,222,080	$ 4,596,708	$ 3,813,759	$ 18,632,547	$ 2,840,572	$ 21,473,119

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statement of Functional Expenses
Year Ended December 31, 2018

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

See notes to financial statements.

American Registry for Internet Numbers, Ltd.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 3,081,215**	$ (3,866,821)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**3,502,069**	3,517,550
Realized and unrealized (gain) loss on investments	**(3,409,052)**	2,317,128
Loss on disposal of property and equipment	**-**	9,287
Impairment of property and equipment	**144,551**	-
(Decrease) increase in allowance for doubtful accounts	**(13,250)**	20,462
Deferred rent	**(204,158)**	(187,247)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**109,832**	(22,523)
Prepaid expenses	**84,554**	(8,882)
Deposits	**71,541**	(47,620)
Increase (decrease) in:		
Accounts payable and accrued expenses	**22,635**	102,465
Due to ICANN	**7,802**	(17,372)
Due to NRO	**(103,070)**	(83,522)
Due to APNIC	**110,319**	-
Deferred revenue	**236,361**	82,048
Net cash provided by operating activities	**3,641,349**	1,814,953
Cash flows from investing activities:		
Property and equipment acquisitions	**(3,058,457)**	(3,253,511)
Proceeds from the sale of equipment	**-**	257
Proceeds from the sale of investments	**3,626,651**	9,627,757
Purchase and reinvestments of investments	**(6,467,901)**	(6,018,182)
Net cash (used in) provided by investing activities	**(5,899,707)**	356,321
Net (decrease) increase in cash and cash equivalents	**(2,258,358)**	2,171,274
Cash and cash equivalents:		
Beginning	**3,724,754**	1,553,480
Ending	**$ 1,466,396**	$ 3,724,754

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 notification of a contribution is 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 of Board-designated net assets at December 31, 2019 and 2018, was $29,892,778 and $23,642,476, 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, 2019 and 2018.

Adoption of recent accounting pronouncement: In May 2014, the FASB issued Accounting Standards Update (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 replaces most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP). The updated standards also required expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. ARIN adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition method to all agreements and contracts not yet completed as of January 1, 2019. As a result, revenue recognition was changed for IP End-User registration fees, which is included in the revenue line item registration allocation and assignment fees, and registration maintenance fees. Previously, both IP End-User registration fees and registration maintenance fees were recognized as revenue when the payment was received from the customer. With the adoption of the new standard, revenue is deferred when the payment is received and recognized over time which is ratably over the 12-month term of the contract consistent with the performance obligation of providing the customer with use of the IP address and other tools. The adoption of this standard resulted in a cumulative decrease to net assets and an increase in deferred revenue on January 1, 2019 amounting to $1,719,348 presented in the current year financial statements.

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

The following table presents the effect of the adoption of this standard on the statement of financial position as of December 31, 2019:

	Under Legacy GAAP	Impact of Topic 606	Adjusted Total
Statement of Financial Position			
Liabilities:			
Deferred revenue	$ 7,310,495	$ 1,953,363	$ 9,263,858
Net Assets:			
Undesignated (deficit)	$ 838,722	$ (1,953,363)	$ (1,114,641)

The following table presents the effect of the adoption of this standard on the statement of activities for the year ended December 31, 2019:

	Under Legacy GAAP	Impact of Topic 606	Adjusted Total
Statement of Activities			
Revenue and support:			
Registration maintenance fees	$ 18,495,037	$ (200,786)	$ 18,294,251
Registration allocation and assignment fees	1,348,492	(33,229)	1,315,263
Network transfers	353,100	-	353,100
Contributions	287,400	-	287,400
Other revenues	54,018	-	54,018
Total revenue and support	20,538,047	(234,015)	20,304,032
Change in net assets before investment (loss) income, net	(935,072)	(234,015)	(1,169,087)
Change in net assets	3,315,230	(234,015)	3,081,215
Total net assets beginning January 1, 2019	27,416,270	(1,719,348)	25,696,922
Total net assets ending	$ 30,731,500	$ (1,953,363)	$ 28,778,137

The following table presents the effect of the adoption of this standard on the statement of cash flows for the year ended December 31, 2019:

	Under Legacy GAAP	Impact of Topic 606	Adjusted Total
Statement of Cash Flows			
Cash flows from operating activities:			
Change in net assets	$ 3,315,230	$ (234,015)	$ 3,081,215
Changes in assets and liabilities:			
Increase (decrease) in:			
Deferred revenue	$ 2,346	$ 234,015	$ 236,361

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

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.

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, 2019 and 2018, management established an allowance in the amount of $40,000 and $53,250, 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, 2019 and 2018, management determined there has been $144,551 and $0, respectively, of impairment in the carrying value of long-lived assets reflected in the accompanying financial statements.

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

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 performance obligations are satisfied are 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, 2019 and 2018. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

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 2016.

Revenue recognition: Registration allocation and assignment fees are revenues received from Resource Services Plan (RSP) customers and end-user customers for use of allocations and assignments of initial internet number resources throughout a 12-month term. In addition to the allocation and assignment of internet number resources, the ARIN systems offer many methods and tools for customer to manage and secure their resource records. The initial allocation and assignment of internet resources permits the customer to use the resource records, the IP/ASN registry services and the resource management services for a 12-month period. ARIN's performance obligation exists and is determined to be satisfied evenly throughout the term using the output method and therefore the revenue is recognized over time. Registration fees are collected in advance for a 12-month period. Use of the number resources does not start until payment is received. Prior to 2019, revenue was recognized as income in the month payment was received from the customer. Beginning in 2019, and for the adoption of ASC 606, revenue has been deferred when payment is received and is then recognized equally over a 12-month period. Payments are not refundable once service is initiated.

Registration maintenance fees are revenues received from RSP customers and End User customers for internet number resource services to be received subsequent to the initial registration service period. The annual registration maintenance fee allow customers continued use of the internet number resources, the IP/ASN registry services and the resource management services for an additional 12-month period. ARIN's performance obligation exists and is determined to be satisfied evenly throughout the term using the output method and therefore the revenue is recognized over time. Customers are billed annual registration maintenance service fees 60 days prior to their anniversary month. Revenue is deferred upon billing and is later recognized equally over the 12-month period beginning with the anniversary month.

Network transfer fees are charged for services performed to evaluate the appropriateness and legality of requested internet number resource transfers between community members. The network transfer evaluation service begins when payment is received and ends when the transaction ticket is closed. Revenue is recognized when the transfer evaluation service is completed at a point in time at which ARIN's performance obligation is completed.

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

There are limited economic factors that would affect the nature, amount and timing of cash flows or uncertainty or revenue recognition as IP addresses are limited and in demand. ARIN did not have any impairment or credit losses on any receivables arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components or variable considerations in pricing. Fixed fees are charged based on service category and IP block size.

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.

Pending accounting pronouncement: 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 statements of financial position 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 statements of activities. In November 2019, the FASB delayed the adoption of ASU 2016-02 to fiscal years beginning after December 15, 2020. ARIN is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassification: Certain items in the 2018 information have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

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

Subsequent events: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact ARIN, its operations, and its revenue base for an unknown period of time. Any quarantines, labor shortages or other disruptions to ARIN's operations, or those of their customers and donors, may adversely impact ARIN's revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which ARIN operate, resulting in an economic downturn that could affect demand for their services. The extent to which the coronavirus impacts ARIN's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

In preparing these financial statements, ARIN has evaluated subsequent events through May 21, 2020, 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.

Note 2. Investments and Fair Value Measurements (Continued)

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.

The following table sets forth by level, within the fair value hierarchy, ARIN's assets at fair value at December 31, 2019:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond fund	$ 6,761,448	$ -	$ -	$ 6,761,448
Growth funds	5,331,616	-	-	5,331,616
Foreign blended funds	4,291,854	-	-	4,291,854
U.S. blended funds	2,867,054	-	-	2,867,054
Multialternative	938,465	-	-	938,465
Bank loan	777,280	-	-	777,280
	20,967,717	-	-	20,967,717
Equity exchange traded funds	5,167,011	-	-	5,167,011
Certificates of deposit	-	1,698,510	-	1,698,510
Money market funds	1,082,127	-	-	1,082,127
	$ 27,216,855	$ 1,698,510	$ -	$ 28,915,365

The table below reconciles total investments to the statement of financial position at December 31, 2019:

Investments held at fair value	$ 28,915,365
Investments held at cost	977,413
	$ 29,892,778

Cash accounts maintained in brokerage accounts totaling $977,413 are not included in the above table because they are recorded at cost.

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.

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2019 and 2018, are as follows:

	2019	2018
ARIN online database	$ 22,330,137	$ 19,727,669
Computer equipment	6,301,673	5,590,410
Computer software	860,324	849,358
Furniture and fixtures	505,098	503,834
Office equipment	38,547	34,816
Software (in process)	336,874	813,357
Leasehold improvements	2,348,632	2,348,632
	32,721,285	29,868,076
Less accumulated depreciation and amortization	(23,134,296)	(19,692,924)
	$ 9,586,989	$ 10,175,152

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 2019 and 2018 was $1,232,604 and $1,345,595, respectively.

Note 5. Related Party Transactions

On October 24, 2003, the four Regional Internet Registries (RIR) entered into a memorandum of understanding to form the Number Resource Organization (NRO). The NRO memorandum was originally signed by ARIN, the Asia Pacific region registry (APNIC), the Latin American region registry (LACNIC) and the European region registry (RIPE NCC). The fifth RIR for the African region, AFRINIC, joined by signing the NRO memorandum of understanding in 2005.

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 2019 and 2018 were $111,567 and $92,551, respectively.

The five Regional Internet Registries (RIRs) have an agreement with the Internet Corporation for Assigned Names and Numbers (ICANN) for the distribution of Internet numbers. Based on the NRO coordination function described above, the RIRs pay ICANN $650,000.00 annually for this IANA registration services and an additional voluntary contribution of $183,000 for a total of $823,000 annually. This expense is allocated to each RIR on a pro-rated basis proportional to the RIRs total registration services fees. During 2019 and 2018, ARIN paid ICANN a total of $221,890 and $195,749, respectively.

Note 6. Commitments and Contingencies

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.

Note 6. Commitments and Contingencies (Continued)

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

Years ending December 31:		
2020	$	712,667
2021		730,496
2022		748,689
2023		767,395
2024		786,615
Thereafter		1,702,828
	$	5,448,690

Rent expense totaled $492,502 and $498,671 during 2019 and 2018, 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.

Contracts: ARIN has entered into agreements with various properties and service organizations for conference and meeting facilities in 2020 and beyond. Certain agreements contain various clauses whereby ARIN may be liable for damages in the event of cancellation or lower-than-anticipated attendance. Management of ARIN does not believe that any material losses will be incurred under any of these agreements.

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 as of December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	$ 1,466,396	$ 3,724,754
Accounts receivable, net	277,329	373,911
Investments	29,892,778	23,642,476
Total financial assets available	31,636,503	27,741,141
Amounts designated by the Board	(29,892,778)	(23,642,476)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,743,725	$ 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 net assets without donor restrictions for the following purposes:

Legal defense reserve fund: Funds legal challenges as they arise. At December 31, 2019 and 2018, the legal defense reserve fund totaled $2,214,849 and $2,158,860, respectively.

Note 7. Liquidity and Availability of financial Assets (Continued)

Operating reserve fund: Provides short-term financial stability for ARIN. At December 31, 2019 and 2018, the operating reserve fund totaled $1,562,263 and $1,563,502, respectively.

Long-term reserve fund: Provides long-term financial stability for ARIN. At December 31, 2019 and 2018, the long-term reserve fund totaled $26,115,666 and $19,920,114, 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.