

**Audited Financial Statements**

**AMERICAN REGISTRY FOR  
INTERNET NUMBERS, LTD.**

*December 31, 2003*

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T A T E



TRYON

A Professional Corporation

Certified Public

Accountants

and Consultants

**Independent Auditor's Report**

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

We have audited the accompanying statements of financial position of the American Registry for Internet Numbers, Ltd. (ARIN) as of December 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ARIN's management. 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 the American Registry for Internet Numbers, Ltd. at December 31, 2003 and 2002, 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.

Washington, DC  
March 5, 2004

THE SOUTHERN BUILDING

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**AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.**

**Statements of Financial Position**

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Current assets		
Cash and cash equivalents	\$ 2,301,696	\$ 1,362,983
Accounts receivable	21,367	35,633
Prepaid expenses	7,303	68,587
Deposits - ICANN - Note B	551,727	345,490
Total current assets	<u>2,882,093</u>	<u>1,812,693</u>
Investments - Note C	11,603,952	9,390,090
Fixed assets		
Furniture and equipment	2,048,817	2,017,684
Leased equipment	220,041	186,795
Building improvements	612,785	612,785
	<u>2,881,643</u>	<u>2,817,264</u>
Less accumulated depreciation and amortization	<u>(1,709,610)</u>	<u>(1,276,669)</u>
	<u>1,172,033</u>	<u>1,540,595</u>
Total assets	<u>\$ 15,658,078</u>	<u>\$ 12,743,378</u>
 <b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expense	\$ 286,859	\$ 240,807
Deferred rent expense	75,712	51,039
Due to ICANN - Note B	546,842	343,292
Due to LACNIC	-	2,000
Deferred revenue	2,989,522	3,076,508
Total liabilities	<u>3,898,935</u>	<u>3,713,646</u>
Commitments and contingencies - Note E	-	-
Net assets - unrestricted	<u>11,759,143</u>	<u>9,029,732</u>
Total liabilities and net assets	<u>\$ 15,658,078</u>	<u>\$ 12,743,378</u>

*See notes to financial statements.*

**AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.**

**Statements of Activities**

	2003	2002
<b>Revenue</b>		
Registrations	\$ 7,019,515	\$ 6,977,747
IP end user	347,500	287,530
Maintenance	231,007	122,550
Other revenue	46,436	120,054
Membership dues	17,935	19,500
Total revenue	<u>7,662,393</u>	<u>7,527,381</u>
<b>Expense</b>		
Program		
Engineering	2,226,532	2,098,032
Registration services group	1,458,466	1,437,865
Member services	1,042,655	937,163
Total program expense	<u>4,727,653</u>	<u>4,473,060</u>
Administrative	1,629,645	1,647,149
Total expense	<u>6,357,298</u>	<u>6,120,209</u>
<b>Change in net assets before investment activity</b>	1,305,095	1,407,172
Investment gain (loss) - Note C	<u>1,424,316</u>	<u>(190,420)</u>
<b>Change in net assets</b>	2,729,411	1,216,752
Net assets, beginning of year	<u>9,029,732</u>	<u>7,812,980</u>
<b>Net assets, end of year</b>	<u>\$ 11,759,143</u>	<u>\$ 9,029,732</u>

*See notes to financial statements.*

**AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.**

**Statements of Cash Flows**

	2003	2002
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 2,729,411	\$ 1,216,752
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	635,501	557,416
(Gain) loss on investments, net	(1,424,316)	190,420
Changes in assets and liabilities:		
Accounts receivable	14,266	(4,457)
Prepaid expenses	61,284	310,177
Deposits - ICANN	(206,237)	(24,729)
Accounts payable and accrued expense	46,052	65,573
Deferred rent expense	24,673	51,039
Amount due to ICANN	203,550	(76,669)
Amount due to LACNIC	(2,000)	(53,622)
Deferred revenue	(86,986)	9,100
Total adjustments	<u>(734,213)</u>	<u>1,024,248</u>
Net cash provided by operating activities	<u>1,995,198</u>	<u>2,241,000</u>
 <b>Cash Flows From Investing Activities</b>		
Purchases of investments, net	(789,546)	(586,989)
Purchases of furniture and equipment	(266,939)	(1,371,806)
Net cash used in investing activities	<u>(1,056,485)</u>	<u>(1,958,795)</u>
 <b>Net increase in cash and cash equivalents</b>	<b>938,713</b>	<b>282,205</b>
Cash and cash equivalents, beginning of year	<u>1,362,983</u>	<u>1,080,778</u>
 <b>Cash and cash equivalents, end of year</b>	<b><u>\$ 2,301,696</u></b>	<b><u>\$ 1,362,983</u></b>

# AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.

## Notes to Financial Statements

### NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization:* The American Registry for Internet Numbers, Ltd. (ARIN) was established on August 28, 1997, and began operations on December 22, 1997, for the purpose of administration and registration of Internet Protocol (IP) numbers to certain geographical areas. Those areas include, but are not limited to, North America, sub-Saharan Africa, and the Caribbean. ARIN also provides a range of educational services for the benefit of its members.

*Income taxes:* ARIN is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code.

*Basis of accounting:* ARIN prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

*Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Cash and cash equivalents:* For financial statement purposes, ARIN considers all investments managed by outside investment companies to be other than cash equivalents.

*Fixed assets:* Acquisitions of furniture and equipment greater than \$1,000 are recorded at cost. Donated furniture and equipment are recorded as contributions and capitalized at their estimated fair value at the date of donation. Furniture and equipment are depreciated using the straight-line method over estimated useful lives of 3 to 5 years. Building improvements and leased equipment are amortized over the term of the respective lease.

*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.

*Functional allocation of expenses:* The costs of providing various programs and administrative activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### NOTE B – DEPOSITS - ICANN

ARIN is provided internet registry numbers for distribution by the Internet Corporation for Assigned Names and Numbers (ICANN). ARIN pays ICANN a portion of fees collected. ARIN deposits money to be paid to ICANN in an escrow account. The cumulative fee owed as of December 31, 2003 and 2002, was \$546,842 and \$343,292, respectively. Total escrow account contains the fee owed to ICANN and interest earned on the escrow account. The account totaled \$551,727 and \$345,490 at December 31, 2003 and 2002, respectively.

**AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.**

**Notes to Financial Statements - Continued**

**NOTE C – INVESTMENTS**

Investments are stated at fair value and consist of the following at December 31,:

	2003	2002
Mutual Funds	\$ 8,375,423	\$ 6,480,032
Certificates of Deposit	3,047,720	2,801,420
Money Market	179,581	44,846
Cash	<u>1,228</u>	<u>63,792</u>
Total investments	<u>\$11,603,952</u>	<u>\$ 9,390,090</u>

Investment income consists of the following for the years ended December 31:

	2003	2002
Net gain (loss) on investments reported at fair value	\$ 1,335,343	\$ (286,341)
Dividends and interest	<u>88,973</u>	<u>95,921</u>
	<u>\$ 1,424,316</u>	<u>\$ (190,420)</u>

**NOTE D - RETIREMENT PLAN**

ARIN has a 401(k) retirement plan available to substantially all employees as of their date of hire. The employer has a discretionary matching option of up to the first 6% that the employee contributes through salary reduction election. Total expense for the years ending December 31, 2003 and 2002 was \$127,647 and \$117,686, respectively

**NOTE E - LEASE COMMITMENTS**

In January 2002, ARIN moved into new office space. ARIN leases the office space in Chantilly, VA under a noncancellable operating lease that expires in January 2012. Future minimum lease payments are:

Year Ending December 31,	
2004	\$ 239,200
2005	246,400
2006	253,800
2007	261,500
2008 and beyond	<u>1,151,300</u>
	<u>\$2,152,200</u>