



**Independent Auditor's Report**

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

We have audited the accompanying statement of financial position of the American Registry for Internet Numbers, Ltd. (ARIN) as of December 31, 2001, and the related statement of activities and cash flows for the six months 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 audit in accordance 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 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 audit 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. as of December 31, 2001, and the changes in its net assets and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

*Tate & Tryon*

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March 22, 2002

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AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.

Statement of Financial Position

December 31, 2001

**Assets**

Current assets

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,080,778     |
| Accounts receivable       | 31,176           |
| Prepaid expenses          | 378,764          |
| Deposits - ICANN - Note B | 320,761          |
| Total current assets      | <u>1,811,479</u> |

Investments - Note C

8,993,521

Fixed assets

|  |                  |
|--|------------------|
| Furniture and equipment                        | 1,258,663        |
| Leased equipment                               | 186,795          |
|  | <u>1,445,458</u> |
| Less accumulated depreciation and amortization | <u>(719,253)</u> |
|  | <u>726,205</u>   |

Total assets

\$ 11,531,205

**Liabilities and Net Assets**

Current liabilities

|                        |                  |
|------------------------|------------------|
| Accounts payable       | \$ 175,234       |
| Due to ICANN - Note B  | 419,961          |
| Due to LACNIC - Note F | 55,622           |
| Deferred revenue       | 3,067,408        |
| Total liabilities      | <u>3,718,225</u> |

Commitments and contingencies - Note E

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Net assets - unrestricted

7,812,980

Total liabilities and net assets

\$ 11,531,205

*See notes to financial statements.*

AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.

Statement of Activities

*Six Months Ended December 31, 2001*

|                                      |                            |
|--------------------------------------|----------------------------|
| <b>Revenue</b>                       |                            |
| Registrations                        | \$ 3,551,188               |
| Investment income                    | 441,555                    |
| Other revenue                        | 106,863                    |
| Membership dues                      | 35,000                     |
| Total revenue                        | <u>4,134,606</u>           |
| <b>Expense</b>                       |                            |
| Program                              |                            |
| Engineering                          | 675,969                    |
| Registration services group          | 537,994                    |
| Member services                      | 481,033                    |
| Total program expense                | <u>1,694,996</u>           |
| Administrative                       | 890,117                    |
| Total expense                        | <u>2,585,113</u>           |
| <b>Change in net assets</b>          | <u>1,549,493</u>           |
| Net assets, July 1, 2001             | <u>6,263,487</u>           |
| <b>Net assets, December 31, 2001</b> | <u><u>\$ 7,812,980</u></u> |

*See notes to financial statements.*

AMERICAN REGISTRY FOR INTERNET NUMBERS, LTD.

Statement of Cash Flows

Six Months Ended December 31, 2001

|   |                            |
|---|----------------------------|
| <b>Cash Flows From Operating Activities</b>   |                            |
| Change in net assets  | \$ 1,549,493               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                            |
| Depreciation  | 133,220                    |
| Gain on investments, net  | (277,222)                  |
| Changes in assets and liabilities:  |                            |
| Accounts receivable   | (3,793)                    |
| Prepaid expenses  | (361,433)                  |
| Deposits - ICANN  | (2,556)                    |
| Accounts payable and accrued expense  | (21,575)                   |
| Amount due to ICANN   | 101,756                    |
| Amount due to LACNIC  | 55,622                     |
| Deferred revenue  | (237,772)                  |
| Total adjustments   | <u>(613,753)</u>           |
| Net cash provided by operating activities   | <u>935,740</u>             |
| <b>Cash Flows From Investing Activities</b>   |                            |
| Purchases of investment, net  | (8,075,930)                |
| Purchases of furniture and equipment  | <u>(454,938)</u>           |
| Net cash used in investing activities   | <u>(8,530,868)</u>         |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(7,595,128)</b>         |
| Cash and cash equivalents, July 1, 2001   | <u>8,675,906</u>           |
| <b>Cash and cash equivalents, December 31, 2001</b>   | <b><u>\$ 1,080,778</u></b> |

**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, South 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 generally accepted accounting principles 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. Leased equipment is 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). A formal contract has not yet been executed, but an agreement in principle has been reached. The cumulative fee owed as of December 31, 2001 is \$419,961. The amount collected prior to July 1, 2001 is held in an escrow account and totals \$320,761.

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, 2001:

|                            |                    |
|----------------------------|--------------------|
| Mutual Funds               | \$3,943,427        |
| Certificates of Deposit    | 2,493,519          |
| U.S. Government Securities | 1,487,366          |
| Stock                      | 919,855            |
| Money Market               | 147,874            |
| Cash                       | 1,480              |
| Total investments          | <u>\$8,993,521</u> |

Investment income consists of the following:

|  |                   |
|--|-------------------|
| Net gain on investments reported at fair value | \$ 277,222        |
| Dividends and interest                         | 164,333           |
|  | <u>\$ 441,555</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 six months ending December 31, 2001 was \$43,729.

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, |                    |
| 2002                     | \$ 226,000         |
| 2003                     | 232,300            |
| 2004                     | 239,200            |
| 2005                     | 246,400            |
| 2006 and beyond          | <u>1,666,700</u>   |
|                          | <u>\$2,610,600</u> |

NOTE F – SUBSEQUENT EVENT

ICANN is in the process of establishing a Registry (LACNIC) for the purpose of administration and registration of Internet Protocol in the South American Region. Currently South America is part of ARIN's jurisdiction. While LACNIC has been created, it will not receive final recognition from ICANN until January 1, 2003. In March 2002, ARIN and LACNIC agreed that ARIN will pay LACNIC 35% of a revenue derived from registration activities for the countries in the emerging LACNIC region. The agreement is retroactive for the year 2001 and is in effect through December 31, 2002. The amount owed to LACNIC as of December 31, 2001 totals \$55,622.