



Report of Independent Auditors and Financial  
Statements for



**ICANN**

Internet Corporation  
for Assigned  
Names and Numbers

June 30, 2012 and 2011

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## **CONTENTS**

---

	PAGE
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5-17

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors (Board)  
Internet Corporation for Assigned Names and Numbers

We have audited the accompanying statements of financial position of Internet Corporation for Assigned Names and Numbers ("ICANN" or the "Organization") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of ICANN. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ICANN's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 ICANN as of June 30, 2012 and 2011, 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.

*Moss Adams LLP*

Los Angeles, California  
October 4, 2012

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2012 AND 2011**

*Amounts are rounded to the nearest thousand in US Dollars*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Cash and cash equivalents	2, 3, 4	\$ 383,018,000	\$ 29,073,000
Accounts receivable, net	2, 4, 5	17,881,000	15,068,000
Investments	2, 4, 6	53,035,000	51,716,000
Prepaid expenses	3	3,288,000	207,000
Other assets	3	3,367,000	105,000
Capital assets, net	2, 7	5,787,000	3,651,000
		<u>466,376,000</u>	<u>99,820,000</u>
Total assets		<u>\$ 466,376,000</u>	<u>\$ 99,820,000</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Accounts payable and accrued liabilities	3	\$ 12,851,000	\$ 8,195,000
Deferred revenue	2, 3	369,933,000	11,475,000
		<u>382,784,000</u>	<u>19,670,000</u>
Total liabilities		<u>382,784,000</u>	<u>19,670,000</u>
Unrestricted net assets	2	83,592,000	80,150,000
		<u>83,592,000</u>	<u>80,150,000</u>
Total liabilities and net assets		<u>\$ 466,376,000</u>	<u>\$ 99,820,000</u>

*Please see Note 3 for the 2012 breakout between ICANN operations and the NgTLD Program.*

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2012 AND 2011**  
*Amounts are rounded to the nearest thousand in US Dollars*

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED SUPPORT AND REVENUE</b>		
Registry	\$ 35,202,000	\$ 33,202,000
Registrar	33,133,000	31,259,000
R.I.R.	823,000	823,000
ccTLD	1,798,000	1,990,000
IDN ccTLD Fast track request fees	52,000	468,000
Contributions	1,405,000	1,551,000
	<u>72,413,000</u>	<u>69,293,000</u>
Total support and revenue	72,413,000	69,293,000
<b>EXPENSES</b>		
Personnel	27,780,000	26,321,000
Travel and meetings	12,553,000	12,258,000
Professional services	19,462,000	12,864,000
Administration	10,582,000	8,541,000
	<u>70,377,000</u>	<u>59,984,000</u>
Total expenses	70,377,000	59,984,000
<b>OTHER INCOME</b>		
Interest income	87,000	127,000
Investment gain	1,319,000	6,006,000
	<u>1,406,000</u>	<u>6,133,000</u>
Total other income	1,406,000	6,133,000
Change in net assets	<u>3,442,000</u>	<u>15,442,000</u>
<b>UNRESTRICTED NET ASSETS</b>		
Beginning of year	<u>80,150,000</u>	<u>64,708,000</u>
End of year	<u>\$ 83,592,000</u>	<u>\$ 80,150,000</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**  
*Amounts are rounded to the nearest thousand in US Dollars*

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,442,000	\$ 15,442,000
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation expense	1,868,000	1,490,000
Bad debt expense	173,000	686,000
Investment gains, net	(1,319,000)	(6,006,000)
Changes in operating assets and liabilities		
Accounts receivable	(2,985,000)	969,000
Prepaid expenses	(3,080,000)	120,000
Other assets	(3,263,000)	290,000
Accounts payable and accrued liabilities	4,657,000	2,514,000
Deferred revenue	358,457,000	(1,128,000)
	<u>357,950,000</u>	<u>14,377,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of capital assets	(4,005,000)	(2,479,000)
Sales of investments	48,516,000	-
Purchases of investments	(48,516,000)	(30,000)
	<u>(4,005,000)</u>	<u>(2,509,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	353,945,000	11,868,000
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>29,073,000</u>	<u>17,205,000</u>
End of year	<u>\$ 383,018,000</u>	<u>\$ 29,073,000</u>

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1 - Organization

The Internet Corporation for Assigned Names and Numbers (ICANN) was established in September 1998 under the laws of the state of California as a non-profit public benefit corporation.

ICANN coordinates a select set of the Internet's technical management functions, such as the assignment of protocol parameters, the management of the domain name system, the allocation of Internet protocol (IP) address space, and the management of the root server system. Categories of Internet domains include Generic Top Level Domains (gTLDs), examples of which are *.com*, *.net*, *.org*, and *.edu* domains, Country Code Top Level Domains (ccTLDs), examples of which are *.us*, *.uk*, *.de* and *.fr*, and Internationalized Domain Name (IDN) ccTLDs for countries that use non-Latin based languages.

ICANN's primary sources of revenue are generated from domain name registration activities and DNS service providers as follows:

**Registry fees** - ICANN has contracts with registry operators of 22 generic top-level domains (gTLDs) such as dot-asia, dot-com and dot-post. Registry fees are described in the respective registry agreements. Based on those agreements, registries pay a fixed fee, transaction-based fee, or both.

**Registrar fees** - ICANN accredits registrars in accordance with the Registrar Accreditation Agreement (RAA). The RAA provides for the following types of fees:

- Application fees are paid one time by prospective registrars at the time of the application.
- Annual accreditation fees are fees that all registrars are required to pay annually to maintain accreditation.
- Per-registrar variable fees are based upon a set amount divided by the number of accredited registrars and is based on a validated concept that ICANN often expends the same quantum of effort in providing services to a registrar regardless of size. However, some registrars may qualify for "forgiveness" of two-thirds of the standard per-registrar variable fee.
- Transaction-based fees from registrants via registrars are assessed on each annual increment of an add, transfer, or renewal domain name registration transaction.
- Add Grace Period (AGP) deletion fees are charged to registrars that delete added names within the grace period in excess of a threshold.

**Address registry fees** - ICANN coordinates with organizations responsible for the assignment and administration of Internet addresses (RIRs). RIR's contribute annually to ICANN.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

---

#### **Note 1 - Organization (continued)**

**Application fees - Registrar** - Application fees are non-refundable and are paid at the time of application by applicants seeking to become an ICANN accredited domain name registrar.

**Application fees - New generic Top Level Domain (gTLD)** - The application fees are paid during the application window by applicants seeking to become a New gTLD registry operator for a particular registry. Application fees are refundable at a diminishing rate according to the processing phase in which the request for refund occurs.

ICANN recognizes revenue as follows:

- Transaction fees are determined based upon an established rate per registration times the volume and number of contract years of the underlying domain registration. Transaction fees are earned and recognized in the year the billed fee applies (e.g., 1/10<sup>th</sup> of a registration transaction fee will be recognized in each year of a 10 year domain name registration).
- Fixed fees are billed in accordance with the underlying contract, and are recognized as earned over the contractual period.
- Registrar application fees are non-refundable, and are recognized at the time the application fees are received.
- New gTLD application fees are recognizable ratably as direct application processing costs are incurred. The rate of recognition of the fees is determined by the proportion of the direct costs incurred versus the total costs. The New gTLD application fees are refundable at a diminishing rate according to the processing phase in which the request for refund occurs.
- Accreditation fee amounts and timing are due in accordance with agreements, are not event dependent, and are recognized ratably monthly over the term of the accreditation.

ICANN has three supporting organizations that serve as the policy development bodies for ICANN within three specialized areas, including the system of IP addresses and the domain name system. The three supporting organizations are the Address Supporting Organization (ASO), the Generic Names Supporting Organization (GNSO) and the Country Code Names Supporting Organization (ccNSO). These supporting organizations are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The supporting organizations are not separately incorporated entities.

ICANN provides accounting support to the Registrar Constituency, a constituency within the ICANN community that serves as the representative for registrars and their customers. The accompanying financial statements do not reflect the financial results of the Registrar Constituency.



# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

---

### Note 2 - Significant Accounting Policies

**Basis of presentation** - The financial statements of ICANN have been prepared in accordance with generally accepted accounting principles in the United States. ICANN recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of ICANN and the changes therein are classified and reported as follows:

- **Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the objectives of ICANN. ICANN's Board adopted an investment policy in November 2007. This investment policy established a Board designated Reserve Fund that limits use of the Reserve Fund based upon specific Board actions. All investments are designated under the Reserve Fund. The Board has also designated a \$2,000,000 fund to be used to support financially needy applicants in the New gTLD Program.
- **Temporarily restricted assets** - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ICANN and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- **Permanently restricted net assets** - Net assets for which the donor has stipulated that the principal be maintained in perpetuity, but permits ICANN to use, or expend, all or part of the income derived from the donated assets for general or specific purposes, subject to statutory regulations.

As of June 30, 2012 and 2011, ICANN had no permanently or temporarily restricted net assets.

**Cash and cash equivalents** - Cash and cash equivalents include deposits in bank, money market accounts and marketable commercial paper. ICANN considers all cash and financial instruments with original maturities of three months or less to be cash and cash equivalents.

**Accounts receivable, net** - Accounts receivable net of allowances for doubtful accounts are approximately \$17,881,000 and \$15,068,000 as of June 30, 2012 and 2011, respectively. On a periodic basis, ICANN adjusts its allowance based on an analysis of historical collectability, current receivables aging, and assessment of specific identifiable customer accounts considered at risk or uncollectible.

ICANN had bad debt expense of approximately \$173,000 and \$686,000 during the years ended June 30, 2012 and 2011, respectively.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

---

#### **Note 2 - Significant Accounting Policies (continued)**

**Investments** - Investments are reported at their fair value and all related transactions are recorded on the trade date. Interest, dividends and realized and unrealized gains and losses are accounted for within unrestricted net assets, or as changes in temporarily or permanently restricted net assets, if so stipulated by the donor of such assets.

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Accounting Standards Codification (ASC) establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1**            Quoted prices in active markets for identical assets or liabilities.
  
- Level 2**            Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
  
- Level 3**            Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include domestic equities, international equities and domestic fixed income. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include funds invested in collective trusts, which are valued by the manager using the fair value of the underlying equity security investments and valued dependent on the redemption features, respectively, which approximates net asset value (NAV).

ICANN's policy is to recognize transfers in and transfers out at the end of the reporting period. This policy includes transfers in and transfers out of Level 1 and Level 2. ICANN has no Level 3 investments.

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 2 - Significant Accounting Policies (continued)**

**Capital assets** - Capital assets consist of capitalized computer equipment, software, furniture and fixtures and leasehold improvements and are stated at cost or, for contributed items, at fair value at date of contribution. Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful life or the remaining lease term. Acquisitions in excess of \$10,000 and one year useful life as well as laptop computers are capitalized.

**Deferred revenue** - Deferred revenue is recorded when fees are billed but not yet earned. Deferred revenue consists of the following as of June 30:

	2012	2011
	<u>                    </u>	<u>                    </u>
Deferred registrar income - transactions	\$ 4,684,000	\$ 4,371,000
Deferred registrar income - unbilled	2,119,000	2,196,000
Deferred registry income - transactions	4,039,000	3,679,000
Deferred registrar income - accreditation	606,000	1,229,000
Deferred income - gTLD	<u>358,485,000</u>	<u>-</u>
 Total deferred revenue	 <u>\$ 369,933,000</u>	 <u>\$ 11,475,000</u>

**Advertising costs** - Direct advertising costs are expensed in the period incurred. Direct advertising costs amounted to approximately \$19,000 and \$24,000, for the years ended June 30, 2012 and 2011, respectively.

**Income taxes** - ICANN is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, ICANN is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

ICANN, under the provisions of ASC 740, *Income Taxes*, had no uncertain tax positions requiring accrual as of June 30, 2012 and 2011. ICANN is no longer subject to income tax examinations by taxing authorities for years before 2009 for its federal filings and for years before 2008 for its state filings.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 2 - Significant Accounting Policies (continued)

**Functional allocation of expenses** - Expenses that can be identified to a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management. ICANN's expenses are classified approximately as follows for the fiscal years ended June 30:

	2012	2011
Program services	\$ 47,187,000	\$ 42,108,000
Support services: management and general	23,190,000	17,876,000
Total expenses	<u>\$ 70,377,000</u>	<u>\$ 59,984,000</u>

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain 2011 amounts have been reclassified in the financial statements to conform to the 2012 presentation. These reclassifications have no impact on net assets.

**Subsequent events** - ASC 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued. ICANN recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. ICANN does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the financial position date and before the financial statements are available to be issued. ICANN has evaluated subsequent events through October 4, 2012 which is the date the financial statements were available to be issued.

#### Note 3 - New generic Top Level Domain Program

Currently the Internet namespace consists of 22 generic Top Level Domains (gTLDs) and over 250 country code Top Level Domains (ccTLDs) operating on various models. Each of the gTLDs has a designated "registry operator" and, in most cases, a Registry Agreement between the operator (or sponsor) and ICANN. The registry operator is responsible for the technical operation of the TLD, including all of the names registered in that TLD. Over 1,000 ICANN accredited registrars interact with registrants (and others) to perform domain name registration and other related services for gTLDs. The New gTLD Program provides a means for prospective registry operators to apply for new gTLDs, and create new options for consumers. The Program opened its first application round in January 2012.

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

---

### Note 3 - New generic Top Level Domain Program (continued)

The New gTLD Program requires applicants to pay an application fee. Revenue is reported gross, and therefore, revenue and expenses are separately disclosed. ICANN believes that direct costs incurred throughout the evaluation of applications provides the best representation of the pattern of performance of services of the New gTLD Program, and recognizes revenues generated from application fees (limited to the cumulative amount of application fees that have become non-refundable) ratably based upon direct application processing costs (e.g., initial evaluation panel reviews) incurred (percentage of completion of the service) throughout the application process. ICANN establishes estimates for total direct costs related to the new gTLD application process, and recognizes these direct costs as incurred. Indirect costs are expensed as incurred.

In the case that additional non-refundable fees are collected, ICANN recognizes unearned revenue upon receipt of the additional non-refundable fees, and recognizes the unearned revenue as revenue when additional evaluation services are performed (or immediately in the case an application is withdrawn/rejected) as this is consistent with the earnings process.

The New gTLD Program is segregated from the rest of the ICANN operations with respect to separate accounting segments and bank accounts.

All intracompany payables and receivables will be settled in cash on a monthly basis.

JUNE 30, 2012	ICANN	NgTLD	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 25,554,000	\$ 357,464,000	\$ 383,018,000
Accounts receivable, net	17,881,000	-	17,881,000
Investments	53,035,000	-	53,035,000
Prepaid expenses	(1,080,000)	4,368,000	3,288,000
Other assets	3,367,000	-	3,367,000
Intra-company clearing	5,937,000	(5,937,000)	-
Capital assets, net	5,787,000	-	5,787,000
	-	-	-
Total assets	\$ 110,481,000	\$ 355,895,000	\$ 466,376,000
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Accounts payable and accrued liabilities	\$ 9,622,000	\$ 3,229,000	\$ 12,851,000
Deferred revenue	11,448,000	358,485,000	369,933,000
Total liabilities	21,070,000	361,714,000	382,784,000
Unrestricted net assets	89,411,000	(5,819,000)	83,592,000
Total liabilities and net assets	\$ 110,481,000	\$ 355,895,000	\$ 466,376,000

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 - New generic Top Level Domain Program (continued)**

<u>YEAR ENDED JUNE 30, 2012</u>	<u>ICANN</u>	<u>NgTLD</u>	<u>Total</u>
<b>UNRESTRICTED SUPPORT AND REVENUE</b>			
Registry	\$ 35,202,000	\$ -	\$ 35,202,000
Registrar	33,133,000	-	33,133,000
R.I.R.	823,000	-	823,000
ccTLD	1,798,000	-	1,798,000
IDN ccTLD Fast track request fees	52,000	-	52,000
Contributions	<u>1,405,000</u>	-	<u>1,405,000</u>
Total support and revenue	72,413,000	-	72,413,000
<b>EXPENSES</b>			
Personnel	26,009,000	1,771,000	27,780,000
Travel and meetings	12,508,000	45,000	12,553,000
Professional services	15,521,000	3,941,000	19,462,000
Administration	<u>10,520,000</u>	<u>62,000</u>	<u>10,582,000</u>
Total expenses	64,558,000	5,819,000	70,377,000
<b>OTHER INCOME</b>			
Interest income	87,000	-	87,000
Investment gain	<u>1,319,000</u>	-	<u>1,319,000</u>
Total other income	<u>1,406,000</u>	-	<u>1,406,000</u>
Change in net assets	<u>9,261,000</u>	<u>(5,819,000)</u>	<u>3,442,000</u>
<b>UNRESTRICTED NET ASSETS</b>			
Beginning of year	<u>80,150,000</u>	-	<u>80,150,000</u>
End of year	<u>\$ 89,411,000</u>	<u>\$ (5,819,000)</u>	<u>\$ 83,592,000</u>

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 3 - New generic Top Level Domain Program (continued)

YEAR ENDED JUNE 30, 2012	ICANN	NgTLD	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Change in net assets	\$ 9,262,000	\$ (5,820,000)	\$ 3,442,000
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Depreciation expense	1,868,000	-	1,868,000
Bad debt expense	173,000	-	173,000
Investment gains, net	(1,319,000)	-	(1,319,000)
Changes in operating assets and liabilities			-
Accounts receivable	(2,985,000)	-	(2,985,000)
Prepaid expenses	1,287,000	(4,367,000)	(3,080,000)
Other assets	(9,200,000)	5,937,000	(3,263,000)
Accounts payable and accrued liabilities	1,427,000	3,230,000	4,657,000
Deferred revenue	(27,000)	358,484,000	358,457,000
Net cash provided by operating activities	486,000	357,464,000	357,950,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of capital assets	(4,005,000)	-	(4,005,000)
Sales of investments	48,516,000	-	48,516,000
Purchases of investments	(48,516,000)	-	(48,516,000)
Net cash used in investing activities	(4,005,000)	-	(4,005,000)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(3,519,000)	357,464,000	353,945,000
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	29,073,000	-	29,073,000
End of year	\$ 25,554,000	\$ 357,464,000	\$ 383,018,000

#### Note 4 - Concentration of Credit Risk

Financial instruments that potentially subject ICANN to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and investments. ICANN places its cash with major financial institutions. Cash held at these financial institutions may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation. Concentration of credit risk with respect to receivables is mitigated by the diversity of registries/registrars comprising ICANN's registry/registrar base. ICANN places its investments with a major investment broker. The investments held are subject to volatility of the market and industries in which they are invested.

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 4 - Concentration of Credit Risk (continued)**

ICANN had two major registries/registrars totaling approximately \$37,665,000 or 51% of the total support in fiscal year 2012 and \$36,606,000 or 53% of the total support in fiscal year 2011. ICANN had accounts receivable amounting to approximately \$4,812,000 and \$4,329,000 due from these two major registries/registrars at June 30, 2012 and 2011, respectively.

**Note 5 - Accounts Receivable**

Accounts receivable is comprised of the following as of June 30:

	2012	2011
gTLD registries and registrars	\$ 15,498,000	\$ 14,019,000
IP address registries	823,000	-
ccTLD's	1,860,000	1,116,000
IDN Fast track	31,000	772,000
Other	235,000	145,000
	18,447,000	16,052,000
Less: allowance for doubtful accounts	(566,000)	(984,000)
	\$ 17,881,000	\$ 15,068,000

**Note 6 - Investments**

Investments consist of the following as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Collective trusts	\$ -	\$ 53,035,000	\$ -	\$ 53,035,000
	-	53,035,000	-	53,035,000

The ICANN Reserve Fund is invested in various collective trusts, which seek an investment return that approximates as closely as practicable before expenses the performance of various indexes.



**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 6 - Investments (continued)**

The following table represents the liquidity and redemption restrictions on the financial instruments above:

	Fair Value at 6/30/12	Redemption Frequency	Redemption Notice Period
Collective trusts	\$ 53,035,000	Daily to semi-monthly	3 Days

There were no unfunded commitments related to these investments at June 30, 2012.

Investments consist of the following as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Equities - domestic	\$ 18,436,000	\$ -	\$ -	\$ 18,436,000
Equities - international	5,460,000	-	-	5,460,000
Fixed income - domestic	27,820,000	-	-	27,820,000
	<u>\$ 51,716,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,716,000</u>

Net investment gain is comprised of the following for the years ended June 30:

	2012	2011
Dividend and interest income	\$ 4,268,000	\$ 2,121,000
Realized and unrealized (losses)/gains	(2,859,000)	4,222,000
Management fees and other	(90,000)	(337,000)
Total net investment gain	<u>\$ 1,319,000</u>	<u>\$ 6,006,000</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 7 - Capital Assets**

Capital assets consist of the following as of June 30 (useful lives of respective asset class in parentheses):

	2012	2011
Computer equipment (Three years)	\$ 6,728,000	\$ 5,097,000
Computer software (Five years)	1,805,000	520,000
Furniture and fixtures (Seven years)	300,000	295,000
Leasehold improvements (Varies per lease)	1,468,000	1,394,000
Construction in progress (None)	1,426,000	416,000
	<u>11,727,000</u>	<u>7,722,000</u>
Less: accumulated depreciation	<u>(5,940,000)</u>	<u>(4,071,000)</u>
	<u>\$ 5,787,000</u>	<u>\$ 3,651,000</u>

**Note 8 - Legal Matters**

In the ordinary course of business, ICANN is occasionally named as a defendant in lawsuits and may be involved in other alternative dispute resolution proceedings. Management cannot at this time determine the probable outcome or the effect, if any, that these matters may have on the financial position and the ongoing operations of ICANN. Accordingly, the accompanying financial statements do not include a provision for any losses that may result from ICANN's current involvement in legal matters.

**Note 9 - Related Party Transactions**

A portion of ICANN's incoming (effective September 14, 2012) President and Chief Executive Officer Fadi Chehadé's services were provided to ICANN directly, including time and expenses during the fiscal year ended June 30, 2012. During the year ended June 30, 2012, Fadi Chehadé was paid \$39,000 for services rendered during the period of May through June 2012.

Dr. Bruce Tonkin is a voting member of the Board of Directors. Dr. Tonkin is also Chief Strategy Officer of Melbourne IT, an ICANN accredited registrar. Revenue from Melbourne IT amounted to \$732,000 and \$767,000 for the years ended June 30, 2012 and 2011, respectively, under the fee structure of the standard Registrar Accreditation Agreement. To avoid any conflict of interest between ICANN and Melbourne IT, Dr. Tonkin abstains from voting on all matters he identifies as potential conflicts of interest that come before the Board.

Additionally, during years ended June 30, 2012 and 2011, the following voting Board members identified that they may have or have had conflicts in accordance with ICANN's Conflicts of Interest Policy: Harald Tveit Alvestrand, Sébastien Bachollet, Steve Crocker, Bertrand de La Chapelle, Chris Disspain, Bill Graham, Rita Rodin Johnston, Mike Silber, Judith Vazquez, and Kuo-Wei Wu.

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 10 - Commitments

ICANN leases its offices and certain other facilities under operating lease agreements. The lease agreements have various termination clauses requiring three to thirty-four months' rent for early termination. A minimum future payments under operating leases for the future years ending June 30 are approximately:

2013	\$	2,754,000
2014		2,768,000
2015		2,851,000
2016		2,983,000
2017		3,027,000
Thereafter		<u>11,949,000</u>
Total	\$	<u><u>26,332,000</u></u>

Rent expense amounted to approximately \$2,550,000 and \$2,684,000 for the years ended June 30, 2012 and 2011, respectively. ICANN also has pass-through and additional charges from certain sub-lessors that are not included in the minimum expected payments above. The pass-through and additional charges cannot be reasonably estimated for future periods. Pass-through and additional charges amounted to approximately \$164,000 and \$299,000 for the years ended June 30, 2012 and 2011, respectively.

#### Note 11 - Defined Contribution Plan

ICANN's 401(k) Plan (the "Plan") is available to all employees in the United States at the first of the month following hire date with ICANN. Subject to legal limitations, ICANN contributes 5% of employee's salary to the Plan regardless of employee contributions. ICANN also matches employee contributions up to 10% of the employee's annual salary, subject to legal limitations. Employer contributions recognized for the years ended June 30, 2012 and 2011 amounted to approximately \$2,165,000 and \$1,967,000, respectively. The June 30, 2012 and 2011 payroll contributions were \$146,000 and \$117,000, respectively.

An internal audit of the 401(k) plan performed by ICANN revealed that between 2005 and 2008, some untimely payments to the Plan consisting of employee deferrals were made after the date required under the Department of Labor's regulations. To correct this error and to compensate for all lost interest, ICANN made a corrective payment to the Plan and reported the correction to the Department of Labor through the Department's Voluntary Fiduciary Correction Program. Contributions were made to affected participants of the Plan to compensate for the lost earnings resulting from the late payments. On January 31, 2011, the Department of Labor issued a no action letter in recognition of ICANN's voluntary compliance.

The above noted internal audit also revealed errors related to administration of the Plan. ICANN filed an application with the Internal Revenue Service ("IRS") for making the necessary corrections to the Plan under the IRS's Voluntary Correction Program. On July 18, 2011, the IRS issued a compliance letter constituting enforcement resolution and accepting ICANN's application for making necessary corrections to the Plan. The corrections were completed December 15, 2011.