



**INTERNET CORPORATION
FOR ASSIGNED NAMES AND NUMBERS**

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



355 South Grand Avenue
Suite 2000
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
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) as of June 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ICANN'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 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 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 Internet Corporation for Assigned Names and Numbers as of June 30, 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.

KPMG LLP

August 22, 2003



KPMG LLP. KPMG LLP, a U.S. limited partnership, is
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**INTERNET CORPORATION
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Statements of Financial Position

June 30, 2003 and 2002

Assets	2003	2002
Cash and cash equivalents	\$ 1,356,416	1,819,098
Accounts receivable, net (note 3)	3,361,252	2,153,651
Property and equipment, net (note 4)	112,703	221,272
Other assets	80,998	489
Total assets	\$ 4,911,369	4,194,510
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 572,330	626,163
Deferred revenue	599,472	496,469
Loans payable (note 5)	3,705	24,691
Total liabilities	1,175,507	1,147,323
Net assets:		
Unrestricted	3,735,862	2,804,380
Temporarily restricted (note 8)	—	242,807
Total net assets	3,735,862	3,047,187
Total liabilities and net assets	\$ 4,911,369	4,194,510

See accompanying notes to financial statements.

**INTERNET CORPORATION
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Statements of Activities

Years ended June 30, 2003 and 2002

	2003	2002
Changes in unrestricted net assets:		
Support and revenue:		
Domain name registry and registrar fees	\$ 5,089,881	3,690,305
Address registry fees	535,000	494,991
Accreditation fees	1,026,719	894,465
Application fees	82,485	411,337
Contributions	—	9,540
Contributed services	193,851	180,995
Interest income	18,428	19,316
Other income	1,777	—
Net assets released from restrictions	293,728	264,943
Total support and revenue	7,241,869	5,965,892
Expenses:		
Personnel	2,329,740	1,858,405
Board and public meetings	930,455	1,149,905
Other meetings and travel	460,275	305,333
Professional services	1,552,360	1,635,258
General and administrative	1,037,557	1,006,832
Total expenses	6,310,387	5,955,733
Change in unrestricted net assets	931,482	10,159
Changes in temporarily restricted net assets:		
Contributions and grants	50,921	328,102
Net assets released from restrictions	(293,728)	(264,943)
Change in temporarily restricted net assets	(242,807)	63,159
Change in net assets	688,675	73,318
Net assets at beginning of year	3,047,187	2,973,869
Net assets at end of year	\$ 3,735,862	3,047,187

See accompanying notes to financial statements.

**INTERNET CORPORATION
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Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ 688,675	73,318
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	106,263	141,468
Loss on disposal of property and equipment	2,306	5,954
Bad debt expense	189,061	231,110
Changes in operating assets and liabilities:		
Accounts receivable	(1,396,662)	405,965
Other assets	(80,509)	26,273
Accounts payable and accrued liabilities	(53,833)	(76,065)
Deferred revenue	103,003	71,938
Net cash (used in) provided by operating activities	(441,696)	879,961
Cash flows from investing activities:		
Purchases of property and equipment	—	(42,316)
Proceeds from sales of property and equipment	—	510
Net cash used in investing activities	—	(41,806)
Cash flows from financing activities:		
Principal payments on loan payable	(20,986)	(19,009)
Principal payments on notes payable	—	(875,000)
Net cash used in financing activities	(20,986)	(894,009)
Net decrease in cash and cash equivalents	(462,682)	(55,854)
Cash and cash equivalents, beginning of year	1,819,098	1,874,952
Cash and cash equivalents, end of year	\$ 1,356,416	1,819,098
Supplemental disclosure of investing and financing activities:		
Cash paid during the year for interest	\$ 1,483	61,481

See accompanying notes to financial statements.

**INTERNET CORPORATION
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Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization

Internet Corporation for Assigned Names and Numbers (ICANN) was established in September 1998 under the laws of the state of California. 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) which include the .com, .net, .org, and .edu domains and Country Code Top Level Domains (ccTLDs), examples of which are .us, .uk, and .fr. ICANN generates income from fees received from domain name registrars and related accreditation activities. Its primary sources of revenue are as follows:

- **Domain name registry and registrar fees** – Amounts contributed by organizations responsible for the registration and administration of Internet Domain Names.
- **Address registry fees** – Amounts contributed by organizations responsible for the assignment and administration of Internet addresses.
- **Accreditation fees** – Amounts paid in connection with initial and renewal accreditation of organizations engaged in the registration and administration of domain names in the .com, .net, .biz, .info, .museum, .name, and .org Internet domains.
- **Application fees** – Amounts paid in connection with processing of applications to become accredited domain name registrars or to become operators of new gTLD registries. (See note 2.)

ICANN also receives contributions and grants from other organizations.

ICANN has three supporting organizations which serve as advisory bodies to the ICANN board of directors with respect to Internet policy issues and structure within three specialized areas, including the system of IP addresses, the domain name system, and parameters for Internet protocols. The supporting committees are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The three supporting committees are the Address Supporting Organization (ASO), Domain Name Supporting Organization (DNSO), and the Protocol Supporting Organization (PSO). The supporting committees are not separately incorporated entities. The ASO and PSO were formed through memorandums of understanding where neither the Secretary nor Council members of either committee shall be entitled to any compensation or reimbursement of expenses from ICANN.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting.

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Notes to Financial Statements

June 30, 2003 and 2002

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 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.
- **Temporarily restricted net 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 subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of ICANN’s programs and operations unless otherwise stipulated by the donor. As of June 30, 2003 and 2002, ICANN had no permanently restricted net assets.

(b) Functional Allocation of Expenses

Expenses that can be identified with 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. As of and for the years ended June 30, 2003 and 2002, ICANN’s expenses are classified as follows:

	2003	2002
Program services	\$ 4,354,167	4,109,456
Supporting services:		
Management and general	1,956,220	1,846,277
Total	\$ 6,310,387	5,955,733

(c) Cash and Cash Equivalents

Cash and cash equivalents include deposits in bank and money market accounts.

(d) Property and Equipment

Property and equipment are stated at cost or, for contributed items, at fair market value at date of contribution. The equipment and furniture are being depreciated using an accelerated method over estimated useful lives of five to seven years. Fixtures are being depreciated using the straight-line method over the useful life or the remaining lease term, whichever is shorter.

(e) Deferred Revenue – Accreditation Fees

Accreditation fees attributable to future activities are included as cash and cash equivalents or accounts receivable and reflected as deferred revenue until earned.

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June 30, 2003 and 2002

(f) Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

(g) Contributed Services

Contributed services are recognized only if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the years ended June 30, 2003 and 2002, contributed legal services totaling \$193,851 and \$180,995, respectively, are included in the accompanying statements of activities as contributed services and professional services expense.

(h) Application Fees

As described in note 1, application fees represent amounts paid to ICANN in connection with the processing of applications to either become accredited domain name registrars requiring an application fee of \$2,500 or to become an operator of a new gTLD. Each application to become an operator of a new gTLD requires a nonrefundable application fee determined by the Board of Directors. During 2001, there were 47 gTLD applications processed and reviewed, resulting in 7 new gTLDs approved and selected for contract negotiation, including *.biz*, *.info*, *.name*, *.pro*, *.museum*, *.coop*, and *.aero*. In 2003 and 2002, no new gTLD applications were solicited. The only application fees received were those for registrar accreditations and for the operator to run an existing registry (*.org*) with application fees of \$2,500 and \$29,000 per application, respectively.

Application fees totaled \$82,485 and \$411,337 for the years ended June 30, 2003 and 2002, respectively.

(i) Income Taxes

ICANN is exempt from federal and state income taxes under the provisions of 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.

(j) Concentration of Credit Risk

ICANN holds a majority of its cash and cash equivalents at two financial institutions. Cash and cash equivalents consist of cash on deposit, money market accounts, and commercial paper. ICANN is exposed to credit loss for the amount of cash in excess of the federally insured limit of \$100,000 in the event of nonperformance by the counterparties. At June 30, 2003 and 2002, ICANN had cash in banks in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits of approximately \$1,326,000 and \$736,000, respectively.

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(k) 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 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.

(l) Reclassifications

Certain reclassifications have been made to the 2002 financial data to conform with the 2003 presentation.

(3) Accounts Receivable

Accounts receivable include amounts receivable from the following constituencies for various registry and accreditation fees at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
CcTLDs	\$ 459,356	361,817
GTLDs	1,780,452	1,148,504
IP address registries	1,211,010	676,010
Other	<u>112,463</u>	<u>120,669</u>
	3,563,281	2,307,000
Less allowance for doubtful accounts	<u>(202,029)</u>	<u>(153,349)</u>
	<u>\$ 3,361,252</u>	<u>2,153,651</u>

(4) Property and Equipment

Property and equipment at June 30, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Computer equipment	\$ 322,433	332,443
Furniture and fixtures	44,195	44,195
Leasehold improvements	<u>112,315</u>	<u>112,315</u>
Total	478,943	488,953
Less accumulated depreciation	<u>(366,240)</u>	<u>(267,681)</u>
	<u>\$ 112,703</u>	<u>221,272</u>

Depreciation expense totaled \$106,263 and \$141,468 for the years ended June 30, 2003 and 2002, respectively.

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(5) Loans Payable

ICANN subleases office space from the University of Southern California (USC). Included in loans payable are two loans payable to USC for leasehold improvements made on ICANN's behalf by USC. Principal and interest at 8% per annum are payable monthly through September 2003. At June 30, 2003 and 2002, amounts due to USC under these loans totaled \$3,705 and \$24,691, respectively.

(6) Legal Matters

In the ordinary course of business, ICANN is subject to lawsuits and other potential legal actions. In the opinion of management, such matters will not have a material effect on the financial position of ICANN.

(7) Related Party Transactions

The services of ICANN's current president and chief executive officer were provided to ICANN through a professional services agreement with a company that was owned by the president. Total payments under this contract for the fiscal year ended June 30, 2003, including fees for professional services and reimbursed travel, were \$184,727. No payments were made during the fiscal year ended June 30, 2002.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets totaled \$242,807 at June 30, 2002. At June 30, 2003, there were no temporarily restricted net assets. These net assets were restricted by donors for specific activities and projects as follows:

	2003	2002
At-large project	\$ —	6,194
Domain Name Supporting Organization sponsorships	—	236,613
	\$ —	242,807

(9) Subsequent Event

On July 1, 2003, the Domain Name Supporting Organization (DNSO) was replaced by the Generic Names Supporting Organizations (GNSO) and the Protocol Supporting Organization (PSO) was discontinued.

GNSO will perform similar functions as DNSO and ICANN will provide administrative and operational support necessary for GNSO to carry out its responsibilities.