



**INTERNET CORPORATION FOR
ASSIGNED NAMES AND NUMBERS**

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

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) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Internet Corporation for Assigned Names and Numbers. 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 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. 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, 2009 and 2008, 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 15, 2009

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED JUNE 30,

2009

2008

Amounts are rounded to the nearest thousand in US Dollars

ASSETS

Cash and cash equivalents	\$ 27,122,000	\$ 22,005,000
Accounts receivable, net	11,758,000	12,456,000
Investments	30,439,000	24,773,000
Prepaid expenses	919,000	14,000
Other assets	345,000	404,000
Capital assets, net	2,646,000	1,316,000
Total assets	<u>\$ 73,229,000</u>	<u>\$ 60,968,000</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued liabilities	\$ 9,753,000	\$ 5,402,000
Deferred revenue	10,205,000	9,141,000
Total liabilities	<u>19,958,000</u>	<u>14,543,000</u>
Unrestricted net assets	<u>53,271,000</u>	<u>46,425,000</u>
Total liabilities and net assets	<u>\$ 73,229,000</u>	<u>\$ 60,968,000</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

2009

2008

Amounts are rounded to the nearest thousand in US Dollars

UNRESTRICTED

SUPPORT AND REVENUE

Domain name registry and registrar fees	\$	54,821,000	\$	45,299,000
Address registry fees		823,000		823,000
Accreditation fees		3,853,000		3,667,000
Application fees		103,000		115,000
Other revenue		644,000		471,000
Total support and revenue		<u>60,244,000</u>		<u>50,375,000</u>

EXPENSES

Personnel		19,768,000		16,746,000
Travel and meetings		10,458,000		9,449,000
Professional services		12,698,000		8,854,000
Administration		7,530,000		4,957,000
Bad debt expense (recovery)		837,000		(462,000)
Total expenses		<u>51,291,000</u>		<u>39,544,000</u>

Other (loss) income

Interest income		227,000		585,000
Investment (loss)		(2,334,000)		(227,000)
Total other (loss) income		<u>(2,107,000)</u>		<u>358,000</u>

Change in net assets

		<u>6,846,000</u>		<u>11,189,000</u>
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UNRESTRICTED NET ASSETS

Beginning of year		<u>46,425,000</u>		<u>35,236,000</u>
End of year	\$	<u>53,271,000</u>	\$	<u>46,425,000</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

2009

2008

Amounts are rounded to the nearest thousand in US Dollars

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 6,846,000	\$ 11,189,000
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation expense	1,105,000	259,000
Bad debt expense (recovery)	837,000	(462,000)
Unrealized loss	2,334,000	227,000
Loss on exchange of capital asset	63,000	-
Changes in operating assets and liabilities		
Accounts receivable	(139,000)	2,976,000
Prepaid expenses	(906,000)	256,000
Other assets	59,000	(307,000)
Accounts payable and accrued liabilities	4,352,000	1,133,000
Deferred revenue	1,063,000	1,697,000
Net cash provided by operating activities	<u>15,614,000</u>	<u>16,968,000</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of capital assets	(2,497,000)	(994,000)
Purchases of investments	<u>(8,000,000)</u>	<u>(25,000,000)</u>
Net cash used in investing activities	<u>(10,497,000)</u>	<u>(25,994,000)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

5,117,000 (9,026,000)

CASH & CASH EQUIVALENTS

Beginning of year	<u>22,005,000</u>	<u>31,031,000</u>
End of year	<u>\$ 27,122,000</u>	<u>\$ 22,005,000</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 and Country Code Top Level Domains (ccTLDs), examples of which are *.us*, *.uk*, *.de*, and *.fr*. ICANN recognizes revenue when services are rendered. ICANN's primary sources of revenue are from domain name registration activities and DNS service providers as follows:

- **Domain name registry and registrar fees** for the registration and administration of Internet domain names. These fees include: 1) *Transaction fees from registrants of domain names via ICANN accredited registrars and gTLD registries* which are charged based upon a set rate per domain name registration, renewal, or transfer, and 2) *Fixed fees* which are amounts paid by registrars and registries based on amounts set in their contracts for services rendered and/or rights given. ICANN also receives contributions and grants from other organizations.
- **Address registry fees** from organizations responsible for the assignment and administration of Internet addresses.
- **Accreditation fees** from ICANN accredited registrars for initial and annual accreditation renewal.
- **Application fees** from applicants seeking to become an ICANN accredited domain name registrar.

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 and the domain name system. The three supporting organizations are the Address Supporting Organization (ASO), Generic Names Supporting Organization (GNSO), and the Country Code Domain Name 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. Transactions handled by ICANN on behalf of GNSO are included in the accompanying financial statements.

ICANN provides accounting support to the Registrar Constituency, a constituency within the ICANN community which 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 on the accrual basis of accounting. 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 which limits use of the Reserve Fund based upon specific Board actions. All investments are designated under the Reserve Fund.
- **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, 2009 and 2008, 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 maturities of three months or less when purchased by ICANN to be cash and cash equivalents.

Accounts receivable, net - Accounts receivable are net of allowances for doubtful accounts of \$923,000 and \$600,000 as of June 30, 2009 and 2008, respectively. On a periodic basis, ICANN adjusts its allowance based on an analysis of historical collectibility, current receivables aging, and assessment of specific identifiable customer accounts considered at risk or uncollectible. ICANN had two major registries/registrars totaling approximately \$27,642,000 or 45% of the total support in fiscal year 2009 and \$22,237,000 or 44% of total support and revenue in fiscal year 2008. ICANN had accounts receivable amounting to approximately \$3,991,000 and \$3,881,000 due from these two major registries/registrars at June 30, 2009 and 2008, respectively.

ICANN had bad debt expense of approximately \$837,000 and recovery of bad debt expense of approximately \$462,000 during the years ended June 30, 2009 and 2008, respectively.

Investments - Investments in marketable securities are carried at fair value, based on quoted market prices.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective July 1, 2008, ICANN adopted Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 has been applied prospectively as of the beginning of the year. SFAS No. 157 defines fair value 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. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The investments held by ICANN are Level 1 assets, which are defined as assets with quoted prices in active markets with other observable inputs.

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 market 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 are capitalized. In June 2009, ICANN revised the estimated useful lives of computer equipment from five years to three years. The change in estimate is accounted for on a prospective basis.

Deferred revenue - Revenue is recognized during the period earned, regardless of when the fee is billed. All transaction years are billed during the quarter in which the transaction agreement is signed. However, a registrar may elect to have their multi-year transaction fees billed on a deferred basis. Fees relating to future periods are recorded as deferred revenue until earned.

Advertising costs - Advertising costs are expensed in the period incurred. Advertising costs amounted to approximately \$173,000 and \$94,000, for the years ended June 30, 2009 and 2008, 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.

Pursuant to FASB Staff Position (FSB) Financial Interpretation (FIN) 48-3, management has elected to defer the application of FIN 48-"Accounting for Uncertainty in Income Taxes" to fiscal years beginning after December 15, 2008. ICANN evaluates uncertain tax positions in accordance with FASB Statement No. 5, Accounting for Contingencies whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2009 and 2008, there were no uncertain tax positions requiring accrual.

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:

	2009	2008
Program services	\$ 36,687,000	\$ 28,631,000
Support services: management and general	14,604,000	10,913,000
Total expenses	<u>\$ 51,291,000</u>	<u>\$ 39,544,000</u>

Concentration of credit risk - Financial instruments which 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, creditable 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, creditable investment broker. The investments held are subject to volatility of the market and industries in which they are invested.

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 2008 amounts have been reclassified in the financial statements to conform to the 2009 presentation. These reclassifications have no impact on net assets.

NOTE 3 - ACCOUNTS RECEIVABLE

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

	2009	2008
gTLD registries and registrars	\$ 11,875,000	\$ 11,779,000
IP address registries	-	823,000
ccTLD's	766,000	451,000
Other	40,000	3,000
	<u>12,681,000</u>	<u>13,056,000</u>
Less: allowance for doubtful accounts	<u>(923,000)</u>	<u>(600,000)</u>
	<u>\$ 11,758,000</u>	<u>\$ 12,456,000</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

Investments consist of the following as of the years ended June 30:

	<u>2009</u>	<u>2008</u>
Equity investments	\$ 8,110,000	\$ 8,190,000
Fixed income investments	<u>22,329,000</u>	<u>16,583,000</u>
Total	<u>\$ 30,439,000</u>	<u>\$ 24,773,000</u>

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

	<u>2009</u>	<u>2008</u>
Security earnings	\$ 2,230,000	\$ 587,000
Realized and unrealized losses	(4,373,000)	(702,000)
Management fees and other	<u>(191,000)</u>	<u>(112,000)</u>
Total net investment (loss)	<u>\$ (2,334,000)</u>	<u>\$ (227,000)</u>

NOTE 5 - CAPITAL ASSETS

Capital assets consist of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 3,525,000	\$ 1,453,000
Computer software	267,000	20,000
Furniture and fixtures	295,000	322,000
Leasehold improvements	<u>230,000</u>	<u>294,000</u>
	4,317,000	2,089,000
Less: accumulated depreciation	<u>(1,671,000)</u>	<u>(773,000)</u>
	<u>\$ 2,646,000</u>	<u>\$ 1,316,000</u>

NOTE 6 - 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 is unable at this time to 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.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2009 and 2008, ICANN's President and Chief Executive Officer (CEO), Dr. Paul Twomey's services were provided to ICANN through a professional services agreement with Argo Pacific Party Limited (Argo Pacific), an Australian Proprietary Company. Dr. Twomey is the owner/founder of Argo Pacific.

Payments were made to Argo Pacific under a contractual arrangement with ICANN (the terms of which have been approved by the ICANN Board of Directors) for the provision of Dr. Twomey's professional services, benefits allowance, and for related expenses (incidental travel, telecommunications, computer supplies, and office supplies).

Pursuant to the agreement, during the year ended June 30, 2009, Argo Pacific was paid \$213,000 associated with Dr. Twomey's employee benefits, \$453,000 in base compensation, and \$113,000 in bonuses. Argo Pacific's agreement with ICANN is denominated in Australian Dollars. ICANN's functional currency is in US Dollars, thus the payments to Argo Pacific are impacted by exchange rate fluctuations between the US dollar and Australian dollar. During the year ended June 30, 2008, Argo Pacific was paid \$256,000 associated with Dr. Twomey's employee benefits, \$543,000 in base compensation, and \$148,000 in bonuses. Reimbursements made to Argo Pacific for related expenses such as travel, telecommunications, and office supplies amounted to \$18,000 and \$25,000 for the years ending June 30, 2009 and 2008, respectively. Total payments made to Argo Pacific for the years ended June 30, 2009 and 2008, were approximately \$797,000 and \$972,000, respectively.

Amounts included in accounts payable and accrued liabilities, due to Argo Pacific, were \$7,000 as of June 30, 2009 and 2008.

In addition to the specific disclosures above, ICANN may enter into or consider participation in small, arm's length transactions between ICANN and certain taxable organizations in which certain of ICANN's directors or officers (or members of their families) may have an affiliation. Under ICANN's Conflicts of Interest policy, all officers and directors are required to disclose any potential conflicts before entering into discussion on such matters. In addition, the Board Committee responsible for conflicts of interest reviews all of the Board member conflicts of interest statements. As of June 30, 2009 and 2008, there were no significant conflicts of interests that existed.

There are two unsecured non-interest bearing advances to two officers. The advances total \$21,000 as of June 30, 2009.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - 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. Minimum expected payments under operating leases for the future years ending June 30 are approximately:

2010	\$	1,751,000
2011		1,219,000
2012		1,111,000
2013		<u>77,000</u>
Total	\$	<u><u>4,158,000</u></u>

Rent expense amounted to approximately \$1,586,000 and \$1,211,000 for the years ended June 30, 2009 and 2008, respectively. ICANN also has pass-through and additional charges from certain sublessors which 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 \$196,000 and \$143,000 for the years ended June 30, 2009 and 2008, respectively.

NOTE 9 - DEFINED CONTRIBUTION PENSION 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. 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. Employer contributions recognized for the years ended June 30, 2009 and 2008 amounted to approximately \$1,341,000 and \$1,083,000, respectively.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the Statement of Financial Position date but before financial statements are available to be 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's financial statements do 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 Statement of Financial Position date and before financial statements are available to be issued.

ICANN has evaluated subsequent events through October 15, 2009, which is the date the financial statements are available for issuance. The following subsequent events did not exist as of the Statement of Financial Position date but arose before the financial statements were issued.

On July 1, 2009, Rod Beckstrom was elected President and CEO of ICANN by the Board of Directors, succeeding Dr. Paul Twomey. Dr. Twomey will serve as Senior President through December 31, 2009 to facilitate the transition to Mr. Beckstrom.

On September 9, 2009, \$11,000,000 was transferred from the Operating fund to the Reserve Fund with Board approval.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - SUBSEQUENT EVENTS (Continued)

On September 30, 2009, ICANN executed an Affirmation of Commitments document which replaced the expiring Joint Project Agreement with the Department of Commerce. The document ensures a long standing commitment to the ICANN model in order to coordinate the Internet's unique identifiers and places review of ICANN's performance in the hands of the ICANN community.