



# Internet Corporation for Assigned Names and Numbers

Financial Statements  
As of and for the Years Ended  
June 30, 2016 and 2015

# **Internet Corporation for Assigned Names and Numbers**

---

Financial Statements  
As of and for the Years Ended  
June 30, 2016 and 2015

# Internet Corporation for Assigned Names and Numbers

## Contents

---

Independent Auditor's Report	3
Financial Statements	
Statements of Financial Position as of June 30, 2016 and 2015	5
Statements of Activities for the Years Ended June 30, 2016 and 2015	6
Statements of Cash Flows for the Years Ended June 30, 2016 and 2015	7
Notes to Financial Statements	8-24



## Independent Auditor's Report

Board of Directors  
Internet Corporation for Assigned Names and Numbers  
Los Angeles, California

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Internet Corporation for Assigned Names and Numbers (ICANN or Organization), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

October 21, 2016

## Financial Statements

---

# Internet Corporation for Assigned Names and Numbers

## Statements of Financial Position (U.S. dollar amounts in thousands)

		<i>June 30,</i>	
	Notes	2016	2015
<b>Assets</b>			
Cash and cash equivalents	2,3,4	\$ 37,423	\$ 89,719
Accounts receivable, net	2,3,5	37,223	28,919
Investments	2,3,6	303,423	236,301
Prepaid expenses	3	2,762	2,048
Other assets	3	613	1,346
Capital assets, net	2,3,7	18,182	18,232
<b>Total assets</b>		<b>\$ 399,626</b>	<b>\$ 376,565</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	3	\$ 18,794	\$ 22,683
Deferred revenue	2,3	47,248	74,772
<b>Total liabilities</b>		<b>66,042</b>	<b>97,455</b>
Unrestricted net assets	2,3	333,584	279,110
<b>Total liabilities and net assets</b>		<b>\$ 399,626</b>	<b>\$ 376,565</b>

*See accompanying independent auditor's report and notes to financial statements.*

# Internet Corporation for Assigned Names and Numbers

## Statements of Activities (U.S. dollar amounts in thousands)

	Notes	<i>Years ended June 30,</i>	
		2016	2015
<b>Unrestricted support and revenue</b>			
Registry	1,2,3	\$ 74,520	\$ 59,089
Registrar	1,2,3	48,322	39,384
Regional Internet Registries (R.I.R.)	1,2,3	823	823
Country code Top Level Domain (ccTLD) contribution and fees	1,2,3	1,159	2,127
Contributions and other income	1,2,3	672	695
Auction proceeds	1,2,3,4	43,701	61,290
Revenue from New gTLD application fees	1,2,3,4	25,448	53,437
<b>Total support and revenue</b>		<b>194,645</b>	<b>216,845</b>
<b>Expenses</b>			
Personnel	2,3	60,378	55,890
Travel and meetings	2,3	16,350	15,802
Professional services	2,3	41,274	36,058
Administration	2,3	25,149	24,112
<b>Total expenses</b>		<b>143,151</b>	<b>131,862</b>
<b>Other income</b>			
Investment gain	3,6	2,980	1,018
<b>Total other income</b>		<b>2,980</b>	<b>1,018</b>
<b>Change in net assets</b>		<b>54,474</b>	<b>86,001</b>
<b>Unrestricted net assets, beginning of year</b>		<b>279,110</b>	<b>193,109</b>
<b>Unrestricted net assets, end of year</b>		<b>\$ 333,584</b>	<b>\$ 279,110</b>

*See accompanying independent auditor's report and notes to financial statements.*

# Internet Corporation for Assigned Names and Numbers

## Statements of Cash Flows (U.S. dollar amounts in thousands)

<i>Years ended June 30,</i>	2016	2015
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 54,474	\$ 86,001
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation expense	7,358	5,953
Bad debt expense	-	550
Investment gain, net	(2,980)	(1,018)
Changes in operating assets and liabilities:		
Accounts receivable	(8,304)	(2,864)
Prepaid expenses	(715)	(643)
Other assets	733	(513)
Accounts payable and accrued liabilities	(3,890)	6,459
Deferred revenue	(27,524)	(71,157)
<b>Net cash provided by operating activities</b>	<b>19,152</b>	<b>22,768</b>
<b>Cash flows from investing activities</b>		
Purchases of capital assets	(7,307)	(7,445)
Proceeds from sale of investments	35,919	51,455
Purchases of investments	(100,060)	(1,670)
<b>Net cash provided by (used in) investing activities</b>	<b>(71,448)</b>	<b>42,340</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(52,296)</b>	<b>65,108</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>89,719</b>	<b>24,611</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 37,423</b>	<b>\$ 89,719</b>

*See accompanying independent auditor's report and notes to financial statements.*



# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### 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, and the allocation of Internet Protocol (IP) address space. 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) in ASCII characters, examples of which are: .us, .uk, .de and .fr; and Internationalized Domain Name (IDN) ccTLDs that are reflected through non-ASCII based languages.

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

#### *Registry Fees*

As of June 30, 2016, ICANN had contracts with registry operators of 1,253 Generic Top Level Domains (gTLDs), of which 240 were added during fiscal year 2016. Registry fees are described in the respective registry agreements. Based on those agreements, registries pay to ICANN fees via 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 based on each add, transfer, or renewal domain name registration.
- Add Grace Period (AGP) deletion fees are charged to registrars that delete added names within the grace period in excess of a threshold.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### *Address Registry Fees*

ICANN coordinates with organizations responsible for the assignment and administration of Internet addresses (RIRs). RIRs contribute annually to ICANN.

### *Application Fees*

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

*New generic Top Level Domain (gTLD)* - The application fees were paid during the application window by applicants seeking to become a New gTLD registry operator for a particular top-level domain. Application fees are refundable at a decreasing rate according to the processing phase in which the request for refund occurs. Note that once a New gTLD registry agreement is signed with an applicant that party becomes a registry operator that is subject to registry fees in accordance with the terms of the registry agreement.

### *Auction Proceeds*

Contention sets are groups of applications containing identical or confusingly similar applied for gTLD strings. Contention sets must be resolved prior to the execution of a Registry Agreement for an applied-for gTLD string. An ICANN facilitated auction is a last resort for resolving string contention sets.

If ICANN facilitates the resolution of a contention set through an auction, it serves as the method of last resort for determining which applicant may operate a gTLD when several entities have applied for the same or confusingly similar gTLDs. The auction is concluded when the remaining application is not in contention as a result of competing applicants having exited the auction. The auction fee received by ICANN is the winning price and is paid by the final bidder.

### *Country Code Top Level Domain (ccTLD) Contribution and Fees*

ICANN receives contributions from ccTLD operators on a voluntary basis. The ccNSO maintains guidelines offered to ccTLD operators who decide to contribute financially to ICANN. These guidelines suggest amounts of voluntary contributions based on the number of domain names under management.

### *Contributions and Other Income*

ICANN receives sponsorships from parties for the ICANN meetings in return for providing exhibition space and advertisements at the meetings.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### 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 April 2014. 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 and considered unrestricted net assets.

*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, 2016 and 2015, ICANN had no permanently or temporarily restricted net assets.

#### *Revenue Recognition*

ICANN recognizes revenue as follows:

- Transaction-based fees are determined based upon an established rate per registration, multiplied by the volume and number of contract years of the underlying domain registration. Transaction-based fees are earned and recognized in the year the transaction occurs. A transaction corresponds to a registration, a transfer or a deletion of a domain name.
- 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.
- Auction proceeds are recognized in revenues when an auction is concluded.
- 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.
- All contributions are made at the discretion of the contributing parties and thus not recognized until the Company has received confirmation from donors.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### *Cash and Cash Equivalents*

Cash and cash equivalents include deposits in bank and money market funds. 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 \$37,223,000 and \$28,919,000 as of June 30, 2016 and 2015, 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 \$0 and \$550,000 during the years ended June 30, 2016 and 2015, respectively.

### *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 change could materially affect the amounts reported in the statements 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.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

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 statements 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 money markets funds. 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. Investments that are valued based on quoted market prices of comparable assets and investments reported at net asset value or its equivalent, which are redeemable in the near term are typically classified within Level 2.

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.

### *Fair Value of Financial Instruments*

The carrying amounts of cash and cash equivalents, accounts receivables, prepaid and other receivables, accounts payable and accrued liabilities and deferred revenue approximate fair value because of the short-term maturity of these financial instruments. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. The fair value of investments are recorded at fair value on a recurring basis are included in Note 6.

### *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. Maintenance and repairs are charged to expense as incurred.

### *Deferred Revenue*

Deferred revenue is recorded when fees are not yet earned. Deferred revenue primarily consists of deferred income related to the new gTLD application fee of \$46,303,000 and \$74,026,000 and deferred registrar accreditation income of \$925,000 and \$611,000 as of June 30, 2016 and 2015, respectively.

### *Legal Expense*

Legal fees are recorded as expense in the accounting period in which the legal services are rendered.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### *Income Taxes*

ICANN is exempt from Federal and state income taxes in the United States 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 believes it is in compliance with all applicable laws, however, upon audit by a taxing authority, if amounts are found due, ICANN may be liable for such taxes. Management has analyzed ICANN's tax positions taken on Federal and state income tax returns for all open tax years and has concluded that, as of June 30, 2016 and 2015, no liabilities are required to be recorded in connection with such tax positions in ICANN's financial statements. The fiscal 2011 through 2015 tax years remain open for examination by the taxing authorities. No interest or penalties are recognized during the year as ICANN has not recorded income tax contingencies. ICANN is not under examination by the Internal Revenue Service for any open tax years.

### *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:

	2016	2015
	<i>(US dollars in thousands)</i>	
Program services	\$ 102,625	\$ 94,249
Support services: management and general	40,526	37,613
Total expenses	\$ 143,151	\$ 131,862

### *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.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### *Subsequent Events*

ICANN evaluates subsequent events in accordance with ASC 855, *Subsequent Events*. ICANN evaluated subsequent events through October 21, 2016, which is when these financial statements were available to be issued.

On July 27, 2016, Power Auctions LLC, ICANN's authorized auction service provider, conducted a New Generic Top-Level Domain (gTLD) Program auction to resolve contention for .WEB and .WEBS. Auction, as the method of last resort for determining which applicant may operate a gTLD when several entities have applied for the same or confusingly similar gTLDs. This method was defined through ICANN's bottom-up, multistakeholder process. Eight applicants completed the requirements for participating in the .WEB/.WEBS auction. NU DOT CO LLC prevailed in the auction for the winning bid of \$135 million to operate the .WEB gTLD, and Vistaprint Ltd prevailed with a winning bid of \$1 for the .WEBS gTLD. A complaint was filed in United States District Court, Central District of California, by one of the non-prevailing participants in the .WEB auction, and the matter is ongoing as of this date.

On August 11, 2016, incorporation documents were filed and received by the California Secretary of State for Public Technical Identifiers (PTI), a nonprofit public benefit corporation and a controlled affiliate of ICANN. On September 30, 2016, the contract between the Internet Corporation for Assigned Names and Numbers (ICANN) and the United States Department of Commerce National Telecommunications and Information Administration (NTIA), to perform the Internet Assigned Numbers Authority (IANA) functions, officially expired. As of October 1, 2016, PTI performs the IANA functions on behalf of ICANN via contract and subcontracts. ICANN provides all of the necessary personnel and resources for PTI to perform these functions.

ICANN is not aware of any other significant events that would have a material impact on its financial statements or require disclosure in the notes to the financial statements.

### **3. New Generic Top Level Domain Program**

ICANN, through its New Generic Top Level Domains (gTLD) Program, is responsible for the introductions of new gTLDs that has resulted in the expansion of the domain name system (DNS). Prior to the New gTLD Program, which resulted in 1930 applications for new gTLDs in 2012, there were 18 gTLDs generally available to the public. The additional gTLDs were introduced with the goal of enhancing competition, innovation and choice in the DNS, and providing a wider variety of organizations, communities and brands new ways to communicate with their audiences. All registries that operate these new gTLDs must pass a rigorous evaluation process and technical preparations and assessments. These steps help ensure the safe, secure and measured rollout of the New gTLDs.

All applications for new gTLDs that have not been withdrawn have completed Initial Evaluation (IE) phase and, where applicable Extended Evaluation (EE). During IE and EE, all applications were evaluated for, among other things, financial, technical/operational, geographic names, and registry services.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

Following completion and passing of IE, and EE if applicable, the contracting phase of the New gTLD Program commenced. In the contracting phase, eligible applicants enter into a Registry Agreement with ICANN to operate a gTLD. After completion of Contracting and before delegation, the applicant is required to enter into Pre-Delegation Testing (PDT).

PDT ensures that an applicant has the capacity to operate a new gTLD in a stable, secure manner. Every new registry must demonstrate that it has established operations in accordance with the technical and operational criteria described in the New gTLD Applicant Guidebook. After the registry operator passes PDT, its gTLD can be introduced into the root zone of the Internet.

During the year ended June 30, 2016, 372 new gTLDs were delegated in the root zone. As of June 30, 2015, there were 680 new gTLDs delegated in the root zone.

As the New gTLD Program and its funding through application fees has been designed on a cost recovery basis, and to enhance accountability and transparency, ICANN has fully segregated from its on-going operations the program's accounting ledger, bank accounts, investment accounts for all program-related funds and expenses.

The following statements of position and activity provide the breakdown of ICANN's financial statements into each segment.

The New gTLD statement of positions for 2016 and 2015 include Auction Proceeds classified as either Cash and Cash Equivalents or Investments. As of June 30, 2016, the balance of investments of \$232,421,000 represents Auction Proceeds of \$100,656,000 and New gTLD program funds of \$131,765,000. As of June 30, 2015, the balance of cash and cash equivalents of \$70,323,000 represents Auction Proceeds of \$59,000,000 and New gTLD program funds of \$11,323,000.

All intra-company payables and receivables will be settled in cash on a monthly basis.

*The remainder of this page intentionally left blank.*



# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

The segregated statement of financial position at June 30, 2016:

<i>June 30, 2016</i>	ICANN	New gTLD	Elimination	Total
	<i>(US dollars in thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 25,607	\$ 11,816	\$ -	\$ 37,423
Accounts receivable, net	36,886	337	-	37,223
Investments	71,002	232,421	-	303,423
Prepaid expenses	2,762	-	-	2,762
Other assets	613	-	-	613
Intra-company asset	4,745	-	(4,745)	-
Capital assets, net	18,182	-	-	18,182
<b>Total assets</b>	<b>\$ 159,797</b>	<b>\$ 244,574</b>	<b>\$ (4,745)</b>	<b>\$ 399,626</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 17,343	\$ 1,451	\$ -	\$ 18,794
Intra-company liability	-	4,745	(4,745)	-
Deferred revenue	945	46,303	-	47,248
<b>Total liabilities</b>	<b>18,288</b>	<b>52,499</b>	<b>(4,745)</b>	<b>66,042</b>
<b>Unrestricted net assets</b>	<b>141,509</b>	<b>192,075</b>	<b>-</b>	<b>333,584</b>
<b>Total liabilities and net assets</b>	<b>\$ 159,797</b>	<b>\$ 244,574</b>	<b>\$ (4,745)</b>	<b>\$ 399,626</b>

The segregated statement of financial position at June 30, 2015:

<i>June 30, 2015</i>	ICANN	New gTLD	Elimination	Total
	<i>(US dollars in thousands)</i>			
<b>Assets</b>				
Cash and cash equivalents	\$ 19,396	\$ 70,323	\$ -	\$ 89,719
Accounts receivable, net	28,436	483	-	28,919
Investments	85,563	150,738	-	236,301
Prepaid expenses	2,048	-	-	2,048
Other assets	1,346	-	-	1,346
Intra-company asset	1,856	-	(1,856)	-
Capital assets, net	18,232	-	-	18,232
<b>Total assets</b>	<b>\$ 156,877</b>	<b>\$ 221,544</b>	<b>\$ (1,856)</b>	<b>\$ 376,565</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 19,294	\$ 3,389	\$ -	\$ 22,683
Intra-company liability	-	1,856	(1,856)	-
Deferred revenue	746	74,026	-	74,772
<b>Total liabilities</b>	<b>20,040</b>	<b>79,271</b>	<b>(1,856)</b>	<b>97,455</b>
<b>Unrestricted net assets</b>	<b>136,837</b>	<b>142,273</b>	<b>-</b>	<b>279,110</b>
<b>Total liabilities and net assets</b>	<b>\$ 156,877</b>	<b>\$ 221,544</b>	<b>\$ (1,856)</b>	<b>\$ 376,565</b>

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

The segregated statement of activities for the year ended June 30, 2016:

<i>June 30, 2016</i>	ICANN	New gTLD	Elimination	Total
	<i>(US dollars in thousands)</i>			
<b>Unrestricted support and revenue</b>				
Registry	\$ 74,520	\$ -	\$ -	\$ 74,520
Registrar	48,322	-	-	48,322
R.I.R.	823	-	-	823
ccTLD contribution and fees	1,159	-	-	1,159
Contributions and other income	672	-	-	672
Auction proceeds	-	43,701	-	43,701
Revenue from New gTLD application fees	-	25,448	-	25,448
<b>Total support and revenue</b>	<b>125,496</b>	<b>69,149</b>	<b>-</b>	<b>194,645</b>
<b>Expenses</b>				
Personnel	54,694	5,684	-	60,378
Travel and meetings	15,108	1,242	-	16,350
Professional services	30,955	10,319	-	41,274
Administration	23,747	1,402	-	25,149
<b>Total expenses</b>	<b>124,504</b>	<b>18,647</b>	<b>-</b>	<b>143,151</b>
<b>Other income</b>				
Investment gain	1,358	1,622	-	2,980
<b>Total other income</b>	<b>1,358</b>	<b>1,622</b>	<b>-</b>	<b>2,980</b>
Development costs (reimbursement)	(2,322)	2,322	-	-
Change in net assets	4,672	49,802	-	54,474
Unrestricted net assets, beginning of year	136,837	142,273	-	279,110
Unrestricted net assets, end of year	\$ 141,509	\$ 192,075	\$ -	\$ 333,584

*The remainder of this page intentionally left blank.*

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

The segregated statement of activities for the year ended June 30, 2015:

<i>June 30, 2015</i>	ICANN	New gTLD	Elimination	Total
	<i>(US dollars in thousands)</i>			
<b>Unrestricted support and revenue</b>				
Registry	\$ 59,089	\$ -	\$ -	\$ 59,089
Registrar	39,384	-	-	39,384
R.I.R.	823	-	-	823
ccTLD contribution and fees	2,127	-	-	2,127
Contributions and other income	695	-	-	695
Auction proceeds	-	61,290	-	61,290
Revenue from New gTLD application fees	-	53,437	-	53,437
<b>Total support and revenue</b>	<b>102,118</b>	<b>114,727</b>	<b>-</b>	<b>216,845</b>
<b>Expenses</b>				
Personnel	48,630	7,260	-	55,890
Travel and meetings	15,499	303	-	15,802
Professional services	21,519	14,539	-	36,058
Administration	20,577	3,535	-	24,112
<b>Total expenses</b>	<b>106,225</b>	<b>25,637</b>	<b>-</b>	<b>131,862</b>
<b>Other income</b>				
Investment gain	493	525	-	1,018
<b>Total other income</b>	<b>493</b>	<b>525</b>	<b>-</b>	<b>1,018</b>
<b>Development costs (reimbursement)</b>	<b>(5,956)</b>	<b>5,956</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>2,342</b>	<b>83,659</b>	<b>-</b>	<b>86,001</b>
<b>Unrestricted net assets, beginning of year</b>	<b>134,495</b>	<b>58,614</b>	<b>-</b>	<b>193,109</b>
<b>Unrestricted net assets, end of year</b>	<b>\$ 136,837</b>	<b>\$ 142,273</b>	<b>\$ -</b>	<b>\$ 279,110</b>

*The remainder of this page intentionally left blank.*

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

The segregated statement of cash flows for the year ended June 30, 2016:

<i>June 30, 2016</i>	<i>ICANN</i>	<i>New gTLD</i>	<i>Elimination</i>	<i>Total</i>
	<i>(US dollars in thousands)</i>			
<b>Cash flows from operating activities</b>				
Change in net assets	\$ 4,672	\$ 49,802	\$ -	\$ 54,474
Adjustments to reconcile change in net assets to cash provided by operating activities:				
Depreciation expense	7,358	-	-	7,358
Investment gains	(1,358)	(1,622)	-	(2,980)
Changes in operating assets and liabilities:				
Accounts receivable	(8,449)	145	-	(8,304)
Prepaid expenses	(715)	-	-	(715)
Other assets	733	-	-	733
Accounts payable and accrued liabilities	(1,952)	(1,938)	-	(3,890)
Intercompany	(2,890)	2,890	-	-
Deferred revenue	200	(27,724)	-	(27,524)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,401)</b>	<b>21,553</b>	<b>-</b>	<b>19,152</b>
<b>Cash flows from investing activities</b>				
Purchases of capital assets	(7,307)	-	-	(7,307)
Proceeds from sale of investments	15,919	20,000	-	35,919
Purchases of investments	-	(100,060)	-	(100,060)
<b>Net cash provided by (used in) investing activities</b>	<b>8,612</b>	<b>(80,060)</b>	<b>-</b>	<b>(71,448)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6,211</b>	<b>(58,507)</b>	<b>-</b>	<b>(52,296)</b>
Cash and cash equivalents, beginning of year	19,396	70,323	-	89,719
<b>Cash and cash equivalents, end of year</b>	<b>\$ 25,607</b>	<b>\$ 11,816</b>	<b>\$ -</b>	<b>\$ 37,423</b>

*The remainder of this page intentionally left blank.*

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

The segregated statement of cash flows for the year ended June 30, 2015:

<i>June 30, 2015</i>	<i>ICANN</i>	<i>New gTLD</i>	<i>Elimination</i>	<i>Total</i>
	<i>(US dollars in thousands)</i>			
<b>Cash flows from operating activities</b>				
Change in net assets	\$ 2,342	\$ 83,659	\$ -	\$ 86,001
Adjustments to reconcile change in net assets to cash provided by operating activities:				
Depreciation expense	5,953	-	-	5,953
Bad debt expense	550	-	-	550
Investment gains	(492)	(526)	-	(1,018)
Changes in operating assets and liabilities:				
Accounts receivable	(2,766)	(98)	-	(2,864)
Prepaid expenses	(643)	-	-	(643)
Other assets	(513)	-	-	(513)
Accounts payable and accrued liabilities	6,862	(403)	-	6,459
Intercompany clearing	88	(88)	-	-
Deferred revenue	135	(71,292)	-	(71,157)
<b>Net cash provided by operating activities</b>	<b>11,516</b>	<b>11,252</b>	<b>-</b>	<b>22,768</b>
<b>Cash flows from investing activities</b>				
Purchases of capital assets	(7,445)	-	-	(7,445)
Proceeds from sale of investments	1,455	50,000	-	51,455
Purchases of investments	(1,300)	(370)	-	(1,670)
<b>Net cash provided by (used in) investing activities</b>	<b>(7,290)</b>	<b>49,630</b>	<b>-</b>	<b>42,340</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,226</b>	<b>60,882</b>	<b>-</b>	<b>65,108</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>15,170</b>	<b>9,441</b>	<b>-</b>	<b>24,611</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 19,396</b>	<b>\$ 70,323</b>	<b>\$ -</b>	<b>\$ 89,719</b>

#### 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/registrar comprising ICANN's registry/registrar base. ICANN places its investments with major investment brokers. Investments held at these investment brokers may, at times, exceed the amount insured by the Securities Investor Protection Corporation. The investments held are subject to volatility of the market and industries in which they are invested.

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 those changes could materially affect the amounts reported in the statements of financial position.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

ICANN had one registry and one registrar totaling approximately \$52,329,000 or 42% of the total support and revenue in fiscal year 2016. ICANN had one registry and one registrar totaling approximately \$49,040,000 or 48% of the total support and revenue in fiscal year 2015. ICANN had accounts receivable amounting to approximately \$12,866,000 or 44% and \$12,650,000 or 42% due from the one registry and one registrar at June 30, 2016 and 2015, respectively.

### 5. Accounts Receivable

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

	2016	2015
	<i>(US dollars in thousands)</i>	
gTLD registries and registrars	\$ 36,952	\$ 28,972
IP address registries	823	-
ccTLD and IDN Fast Track	303	868
Other	146	124
	<b>38,224</b>	<b>29,964</b>
Less: allowance for doubtful accounts	<b>(1,001)</b>	<b>(1,045)</b>
	<b>\$ 37,223</b>	<b>\$ 28,919</b>

### 6. Investments

Investments consist of the following as of June 30, 2016:

<i>2016</i>	Level 1	Level 2	Level 3	Total
	<i>(US dollars in thousands)</i>			
Collective trusts	\$ -	\$ 71,002	\$ -	\$ 71,002
Corporate bonds	-	113,718	-	113,718
Asset backed bonds	-	28,911	-	28,911
U.S. government bonds	-	30,587	-	30,587
Money market funds	42,027	-	-	42,027
International bonds	-	8,526	-	8,526
Government agencies bonds	-	6,668	-	6,668
Municipal and provincial bonds	-	1,984	-	1,984
Total investments	<b>\$ 42,027</b>	<b>\$ 261,396</b>	<b>\$ -</b>	<b>\$ 303,423</b>

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

Investments consist of the following as of June 30, 2015:

<i>2015</i>	Level 1	Level 2	Level 3	Total
	<i>(US dollars in thousands)</i>			
Collective trusts	\$ -	\$ 85,563	\$ -	\$ 85,563
Corporate bonds	-	75,611	-	75,611
Asset backed bonds	-	16,057	-	16,057
U.S. government bonds	-	17,394	-	17,394
Money market funds	22,243	-	-	22,243
International bonds	-	2,691	-	2,691
Government agencies bonds	-	12,686	-	12,686
Municipal and provincial bonds	-	4,056	-	4,056
<b>Total investments</b>	<b>\$ 22,243</b>	<b>\$ 214,058</b>	<b>\$ -</b>	<b>\$ 236,301</b>

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

	2016	2015
	<i>(US dollars in thousands)</i>	
Dividend and interest income	\$ 1,541	\$ 1,546
Realized (losses)/gains	4,285	1,163
Unrealized (losses)/gains	(2,786)	(1,319)
Management fees and other	(60)	(372)
<b>Total net investment gain</b>	<b>\$ 2,980</b>	<b>\$ 1,018</b>

## 7. Capital Assets

Capital assets consist of the following as of June 30:

	2016	2015
	<i>(US dollars in thousands)</i>	
Computer equipment	\$ 13,538	\$ 11,151
Computer software	21,589	16,090
Furniture and fixtures	175	6
Leasehold improvements	4,646	4,339
Construction in progress	2,686	3,739
	42,634	35,325
Less: accumulated depreciation	(24,452)	(17,093)
	<b>\$ 18,182</b>	<b>\$ 18,232</b>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$7,358,500 and \$5,953,000, respectively.

# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### 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.

### 9. Related Party Transactions

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, which also owns Netregistry, PlanetDomain TPP Domain and TPP Wholesale, also an ICANN accredited registrar, as a result of the acquisition of Netregistry in March 2014. Revenue to ICANN from Melbourne IT and its subsidiaries amounted to \$330,600 and \$382,800 for the years ended June 30, 2016 and 2015, 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.

Mr. Chris Disspain is a voting member of the Board of Directors. In fiscal year 2015 and until March 2016, Mr. Disspain was also CEO of auDA, the policy authority and industry self-regulatory body for .au domain names. ICANN's revenue from auDA amounted to \$225,000 and \$250,000 for the fiscal years ended June 30, 2016 and 2015, respectively, under the structure of the ccTLD agreement.

Mr. Mike Silber is a voting member of the Board of Directors. Mr. Silber served as a Director and Treasurer of the .za Domain Name Authority, the ccTLD administrator for .za. from its formation in 2004 to April 2015. No revenue was received from .za for the fiscal years ended June 30, 2016 and 2015, respectively.

*The remainder of this page intentionally left blank.*



# Internet Corporation for Assigned Names and Numbers

## Notes to Financial Statements

---

### 10. Commitments

ICANN leases its offices and certain other facilities under operating lease agreements that expire at various dates through January of 2023. The lease agreements have various termination clauses requiring three to thirty-four months' rent for early termination. Minimum future payments under operating leases for the future years ending June 30 are approximately:

<i>Years ending June 30,</i>	<i>Amount</i>
	<i>(US dollars in thousands)</i>
2017	\$ 4,543
2018	3,985
2019	3,757
2020	3,598
2021	3,596
Thereafter	3,956
	<hr/>
	\$ 23,435

Rent expense amounted to approximately \$4,309,506 and \$4,523,205 for the years ended June 30, 2016 and 2015, respectively. ICANN also has pass-through and additional charges from certain sublessors that are not included in the minimum expected payments above. The pass-through and additional charges cannot be reasonably estimated for future periods. There were no pass-through and additional charges for the years ended June 30, 2016 and 2015.

ICANN's President and CEO, Göran Marby, has an employment agreement with ICANN through May 2021. Pursuant to that employment agreement, Mr. Marby is entitled to an annual base salary of \$653,846 and at-risk compensation of up to \$196,154 - not to exceed a total of \$850,000 annually per year based on the President's and CEO's achievement of the established performance goals.

The ICANN Board members, who specifically elect for it, receive compensation for their services as directors. The directors are elected for three-year terms. The aggregated amounts of expected compensation relative to the directors who have elected to receive compensation are \$585,000, \$355,000 and \$75,000 for the fiscal years ending June 30, 2017, 2018 and 2019 respectively.

### 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, 2016 and 2015 amounted to approximately \$4,790,000 and \$4,397,000, respectively. At June 30, 2016 and 2015, the 401(k) Plan outstanding contributions were \$872,697 and \$860,378, respectively.