



Internet Corporation for Assigned Names and Numbers

Consolidated Financial Statements
As of and for the Years Ended
June 30, 2018 and 2017

Internet Corporation for Assigned Names and Numbers

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Internet Corporation for Assigned Names and Numbers

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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 consolidated financial statements of Internet Corporation for Assigned Names and Numbers (ICANN or Organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Internet Corporation for Assigned Names and Numbers and its Affiliate as of June 30, 2018 and 2017, 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 31, 2018

Consolidated Financial Statements

Internet Corporation for Assigned Names and Numbers

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

		<i>June 30,</i>	
	Notes	2018	2017
Assets			
Cash and cash equivalents	2,4,5,6	\$ 32,498	\$ 107,432
Accounts receivable, net	2,4,7	34,249	39,872
Investments	2,4,8	422,400	352,115
Prepaid expenses	4	2,377	1,979
Other assets	4	1,774	939
Capital assets, net	2,4,9	12,220	17,451
Total assets		\$ 505,518	\$ 519,788
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	4	\$ 17,855	\$ 19,034
Deferred revenue	2,4	36,645	26,068
Total liabilities		54,500	45,102
Unrestricted net assets	2,4	451,018	474,686
Total liabilities and net assets		\$ 505,518	\$ 519,788

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

Internet Corporation for Assigned Names and Numbers

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

	Notes	<i>Years ended June 30,</i>	
		2018	2017
Unrestricted support and revenue			
Registry	1,2,4	\$ 83,304	\$ 84,437
Registrar	1,2,4	47,031	46,001
Regional Internet Registries (R.I.R.)	1,2,4	823	823
Country code Top Level Domain (ccTLD) contribution and fees	1,2,4	2,338	2,805
Contributions and other income	1,2,4	265	584
Auction proceeds	1,2,4,5	-	135,000
Revenue from New gTLD application fees	1,2,4,5		20,776
New gTLD application fees cumulative adjustment	3	(12,548)	
Total support and revenue		121,213	290,426
Expenses			
Personnel	2,3	72,128	65,639
Travel and meetings	2,3	16,367	19,095
Professional services	2,3	31,505	42,014
Administration	2,3	26,120	28,851
Total expenses		146,120	155,599
Other income and (expense)			
Investment gain	3,8	7,366	6,275
Other (expense)	10	(6,127)	-
Total other income		1,239	6,275
Change in net assets		(23,668)	141,102
Unrestricted net assets, beginning of year		474,686	333,584
Unrestricted net assets, end of year		\$ 451,018	\$ 474,686

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

Internet Corporation for Assigned Names and Numbers

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

<i>Years ended June 30,</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (23,668)	\$ 141,102
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation expense	7,680	8,704
Bad debt expense	150	-
Investment gain, net	(7,366)	(6,275)
Loss on disposal of capital assets	-	19
Changes in operating assets and liabilities:		
Accounts receivable	5,473	(2,649)
Prepaid expenses	(398)	783
Other assets	(835)	(326)
Accounts payable and accrued liabilities	(1,179)	240
Deferred revenue	10,577	(21,181)
Net cash provided by (used in) operating activities	(9,566)	120,417
Cash flows from investing activities		
Purchases of capital assets	(2,449)	(7,992)
Proceeds from sale of investments	10,000	23,584
Purchases of investments	(72,919)	(66,000)
Net cash used in investing activities	(65,368)	(50,408)
Net increase (decrease) in cash and cash equivalents	(74,934)	70,009
Cash and cash equivalents, beginning of year	107,432	37,423
Cash and cash equivalents, end of year	\$ 32,498	\$ 107,432

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

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

1. Organization

The consolidated financial statements for the Internet Corporation for Assigned Names and Numbers (ICANN) include the financials for ICANN Corporation and its affiliate Public Technical Identifiers (PTI).

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 coordination functions, such as the assignment of protocol parameters, the technical coordination of the domain name system (DNS), 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, and .org; 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 DNS. 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 is responsible for the performance of the Internet Assigned Numbers Authority (IANA) functions. Through contracts, ICANN has delegated the performance of the IANA functions to Public Technical Identifiers (PTI), an affiliate of ICANN. PTI was established in August 2016 under the laws of the state of California as a non-profit public benefit corporation and ICANN is the sole member of PTI. PTI commenced operations on October 1, 2016 and its financials are included in the consolidated financial statements of ICANN. All funding for PTI is received from ICANN under subcontract agreements. PTI's sole purpose is the performance of the IANA functions as delegated by ICANN.

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

Registry Fees

As of June 30, 2018, ICANN had contracts with registry operators of 1,246 gTLDs, five of which were entered during fiscal year 2018. 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.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

- 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.

Address Registry Fees

ICANN coordinates with the Regional Internet Registries (RIRs), which are responsible for the assignment and administration of Internet addresses. 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 gTLDs. Contention sets must be resolved prior to the execution of a registry agreement for an applied-for gTLD. An ICANN facilitated auction is a last resort for resolving 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 gTLD. 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 prevailing price and is paid by the final bidder.

During the year ended June 30, 2017, ICANN received \$135 million in auction proceeds for the gTLD .WEB, which is reflected in the accompanying statement of activities. In July 2016, one of the non-prevailing participants in the .WEB auction filed a complaint against ICANN in the United States District Court, Central District of California. The District Court dismissed the matter in November 2016 and the plaintiff appealed. On October 15, 2018, the Ninth Circuit Court of Appeals affirmed the District Court’s dismissal of the case.

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 that decide to contribute financially to ICANN. These guidelines suggest amounts of voluntary contributions based on the number of domain names under management.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

Contributions and Other Income

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

2. Significant Accounting Policies

Basis of Presentation

The consolidated 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, which was most recently updated in February 2018. 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 consolidated 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.

During the years ending June 30, 2018 and 2017, the Number Resource Organization (NRO), on behalf of the five RIRs, contributed a total of \$823,000 to ICANN for the years ended June 30, 2018 and 2017 of which \$650,000 was temporarily restricted for the IANA Numbering services pursuant to section 5.2 of the Service Level Agreement (SLA) for IANA Numbering Services. During the years ended June 30, 2018 and 2017, ICANN contributed the total amount of this temporarily restricted contribution of \$650,000 related to the IANA functions to PTI. During the years ended June 30, 2018 and 2017, the contribution was used for the IANA numbering services and all restrictions were satisfied. As such, there were no temporarily restricted net assets as of periods ending June 30, 2018 and 2017.

As of June 30, 2018, and 2017, ICANN had no permanently or temporarily restricted net assets.

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Notes to Consolidated Financial Statements

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 estimated costs of the program until completion. 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.

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 \$34,249,000 and \$39,872,000 as of June 30, 2018 and 2017, 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 \$150,000 and \$0 during the years ended June 30, 2018 and 2017, 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. If available, investments are reported at their net asset value (NAV) per unit as a practical expedient as reported by the fund manager.

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Notes to Consolidated Financial Statements

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 consolidated 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.

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 consolidated 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 8.

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Notes to Consolidated Financial Statements

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 fees of approximately \$35,612,000 and \$24,660,000 as of June 30, 2018 and 2017, deferred registrar accreditation income of approximately \$1,013,000 and \$1,388,000 as of June 30, 2018 and 2017, respectively, and deferred sponsorships of approximately \$20,000 and \$20,000 as of June 30, 2018 and 2017, respectively.

Legal Expense

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

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 consolidated 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, 2018 and 2017, no liabilities are required to be recorded in connection with such tax positions in ICANN's financial statements. The fiscal 2013 through 2017 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.

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Notes to Consolidated Financial Statements

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 years ended June 30:

	2018	2017
	<i>(US dollars amounts in thousands)</i>	
Program services	\$ 105,478	\$ 112,037
Support services: management and general	40,642	43,562
Total expenses	\$ 146,120	\$ 155,599

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 prior year amounts have been reclassified for comparability with the 2018 financial statement presentation.

Subsequent Events

ICANN evaluates subsequent events in accordance with ASC 855, *Subsequent Events*. ICANN evaluated subsequent events through October 31, 2018, which is when these consolidated financial statements were available to be issued.

In October 2018, Akram Atallah, President, Global Domains Division, ICANN Officer and PTI, ICANN's affiliate Board member resigned from all his positions with ICANN and PTI.

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

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

3. Change in Accounting Estimate

In accordance with the revenue recognition policy of the new gTLD program (see Note 2), management periodically reviews the total estimated costs of the program. During the year ended June 30, 2018, management estimated that the new gTLD program would extend until 2020. This updated timeline is based on anticipated activities required to review all outstanding applications. Accordingly, the total estimated costs of the program until completion has increased by \$13,096,000, which relate to personnel and program administration costs. The change in accounting estimate was recorded prospectively and impacts the rate of recognition of the application fees. This change in rate of recognition resulted in a cumulative adjustment to the new gTLD application fees recognized in revenue as of June 30, 2018. Such cumulative adjustment amounts to a reduction of \$12,548,000 of the Revenue from New gTLD application fees that is classified as New gTLD application fees cumulative adjustment in the accompanying consolidated Statements of Activities and in segmented Statement of Activities as of June 30, 2018 (see Note 4).

4. Segment and Affiliate Reporting

The following consolidated statements of financial position, statements of activities, and statements of cash flows provide the breakdown of ICANN's financial statements into the segments for ICANN and its affiliate PTI. The two segments for ICANN are ICANN Operations and the New Generic Top Level Domains (gTLD) Program. The operations for PTI, which is responsible for performing the IANA functions, started on October 1, 2016 and as a result nine month of operations are reflected under the PTI entity for the period ended June 30, 2017. For the period from July 1, 2016 to September 30, 2016, the results of the IANA operations are reflected under the ICANN Operations segment.

ICANN Operations

The ICANN Operations consist of the on-going activities performed to coordinate the Internet's technical functions, such as the assignment of protocol parameters, the technical coordination of the domain name system (DNS), and the allocation of Internet Protocol (IP) address space, as operated by PTI. These activities include the development of policies designed to maintain the security, stability and resiliency of the Domain Name System.

PTI

PTI is an affiliate of ICANN that is responsible for performing the IANA functions and delivering the IANA Services, on behalf of ICANN. ICANN contracts with PTI for the performance of the IANA names function (through the IANA Naming Function Contract), and subcontracts with PTI for the performance of the protocol parameters (ICANN-PTI Subcontract Agreement for obligations under the Internet Engineering Task Force (IETF) Memorandum of Understanding (MoU) and Supplemental Agreement) and numbers (ICANN-PTI Subcontract Agreement for obligations under the SLA for IANA Numbering Services) functions. As a result, PTI is responsible for performing all three IANA functions. Included in this contract and subcontracting agreements is the sub-licensing of the use of the IANA trademarks and registrations from ICANN to PTI for use in connection with performing the IANA functions (see Note 12).

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Notes to Consolidated Financial Statements

ICANN contracted with Verisign to provide Root Zone Maintainer services (the Root Zone Maintainer Service Agreement, or RZMA). As the root zone maintainer service is integral to the performance of the IANA naming function, ICANN subcontracted certain of its obligations under the RZMA to PTI. PTI performs all requirements and furnishes all services necessary to fulfill ICANN's obligations under the RZMA, but is not obligated to and may not perform certain other items under the RZMA unless specifically requested by ICANN (e.g., pay the monthly fee to Verisign, serve on the RZMA Coordination Committee, initiate request for additional services, make indemnification claims, or terminate/renew the RZMA).

ICANN commits to making available to PTI the necessary personnel, material, equipment, services, and facilities to perform PTI's contractual obligations to ICANN (as set out in the IANA Naming Functions contract and other subcontracts discussed herein). A Services Agreement between ICANN and PTI specifies ICANN's obligations to make resources available to PTI (see Note 12).

The PTI intra-company payables and receivables are settled on a quarterly basis. All unsettled intra-company payables and receivables eliminate on a consolidated basis.

New Generic Top Level Domain Program

ICANN, through its New 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 1,930 applications for new gTLDs in 2012, there were 18 gTLDs generally available to the public. The additional gTLDs were introduced with the goal of introducing and promoting 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.

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 years ended June 30, 2018 and 2017, 5 new gTLDs and 175 new gTLDs were delegated in the root zone, respectively. As of June 30, 2018, and 2017, there were 1,231 new gTLDs and 1,226 new gTLDs delegated in the root zone, respectively.

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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 consolidated statements of financial position, statements of activities, and statements of cash flows provide the breakdown of ICANN's financial statements into each segment and its affiliate.

The new gTLD statements of financial positions for 2018 and 2017 include Auction Proceeds classified as either cash and cash equivalents or investments. The Auction Proceeds is comprised of the following as of June 30, 2018:

	Auction Proceeds	New gTLD Program Funds	Total
<i>June 30, 2018</i>			
Cash and cash equivalents	\$ -	\$ 5,494	\$ 5,494
Investments	238,116	114,572	352,688
Total	\$ 238,116	\$ 120,066	\$ 358,182
<i>June 30, 2017</i>			
Cash and cash equivalents	\$ 67,696	\$ 4,978	\$ 72,674
Investments	167,604	122,907	290,511
Total	\$ 235,300	\$ 127,885	\$ 363,185

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Notes to Consolidated Financial Statements

The New gTLD intra-company payables and receivables are settled in cash on a quarterly basis. All unsettled intra-company payables and receivables eliminate on a consolidated basis.

The segmented statement of financial position at June 30, 2018:

<i>June 30, 2018</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Assets					
Cash and cash equivalents	\$ 27,004	\$ 5,494	\$ -	\$ -	\$ 32,498
Accounts receivable, net	34,007	242	-	-	34,249
Investments	69,712	352,688	-	-	422,400
Prepaid expenses	2,377	-	-	-	2,377
Other assets	1,774	-	-	-	1,774
Intra-company asset	18,547	-	272	(18,819) ⁽¹⁾	-
Capital assets, net	12,220	-	-	-	12,220
Total assets	\$ 165,641	\$ 358,424	\$ 272	\$ (18,819) ⁽¹⁾	\$ 505,518
Liabilities and net assets					
Liabilities					
Accounts payable and accrued liabilities	\$ 15,207	\$ 2,376	\$ 272	\$ -	\$ 17,855
Intra-company liability	272	18,547	-	(18,819) ⁽¹⁾	-
Deferred revenue	1,033	35,612	-	-	36,645
Total liabilities	16,512	56,535	272	(18,819) ⁽¹⁾	54,500
Unrestricted net assets	149,129	301,889	-	-	451,018
Total liabilities and net assets	\$ 165,641	\$ 358,424	\$ 272	\$ (18,819)	\$ 505,518

(1) - The segmented statement of financial position at June 30, 2018 contained unsettled intercompany receivables and/or payables between ICANN, NgTLD and/or PTI. The unsettled intercompany balances of \$18,819,000 at June 30, 2018 are eliminated prior to consolidation of the financial statements.

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Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The segmented statement of financial position at June 30, 2017:

<i>June 30, 2017</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Assets					
Cash and cash equivalents	\$ 34,758	\$ 72,674	\$ -	\$ -	\$ 107,432
Accounts receivable, net	39,749	123	-	-	39,872
Investments	61,604	290,511	-	-	352,115
Prepaid expenses	1,979	-	-	-	1,979
Other assets	939	-	-	-	939
Intra-company asset	9,837	-	222	(10,059) ⁽¹⁾	-
Capital assets, net	17,451	-	-	-	17,451
Total assets	\$ 166,317	\$ 363,308	\$ 222	\$ (10,059) ⁽¹⁾	\$ 519,788
Liabilities and net assets					
Liabilities					
Accounts payable and accrued liabilities	\$ 16,584	\$ 2,228	\$ 222	\$ -	\$ 19,034
Intra-company liability	222	9,837	-	(10,059) ⁽¹⁾	-
Deferred revenue	1,408	24,660	-	-	26,068
Total liabilities	18,214	36,725	222	(10,059) ⁽¹⁾	45,102
Unrestricted net assets	148,103	326,583	-	-	474,686
Total liabilities and net assets	\$ 166,317	\$ 363,308	\$ 222	\$ (10,059)	\$ 519,788

(1) - The segmented statement of financial position at June 30, 2017 contained unsettled intercompany receivables and/or payables between ICANN, NgTLD and/or PTI. The unsettled intercompany balances of \$10,059,000 at June 30, 2017 are eliminated prior to consolidation of the financial statements.

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Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The segmented statement of activities for the year ended June 30, 2018:

<i>Year ended June 30, 2018</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Unrestricted support and revenue					
Registry	\$ 83,304	\$ -	\$ -	\$ -	\$ 83,304
Registrar	47,031	-	-	-	47,031
R.I.R.	823	-	650	(650) ⁽¹⁾	823
ccTLD contribution and fees	2,338	-	-	-	2,338
Contributions and other income	265	-	-	-	265
New gTLD application fees cumulative adjustment	-	(12,548)	-	-	(12,548)
Contributions to PTI from ICANN	-	-	7,168	(7,168) ⁽¹⁾	-
Total support and revenue	133,761	(12,548)	7,818	(7,818)	121,213
Expenses					
Personnel	69,859	2,269	4,868	(4,868) ⁽²⁾	72,128
Travel and meetings	15,735	632	453	(453) ⁽²⁾	16,367
Professional services	25,050	6,455	1,155	(1,155) ⁽²⁾	31,505
Administration	25,629	491	1,342	(1,342) ⁽²⁾	26,120
Total expenses	136,273	9,847	7,818	(7,818)	146,120
Other income and (expense)					
Investment gain	3,080	4,286	-	-	7,366
Other expense	-	(6,127)	-	-	(6,127)
Total other income	3,080	(1,841)	-	-	1,239
Development costs (reimbursement)	(458)	458	-	-	-
Change in net assets	1,026	(24,694)	-	-	(23,668)
Unrestricted net assets, beginning of year	148,103	326,583	-	-	474,686
Unrestricted net assets, end of year	\$ 149,129	\$ 301,889	\$ -	\$ -	\$ 451,018

(1) - The segmented statement of activities for the year ended June 30, 2018 contained inter-company revenues and expenses between ICANN and PTI. The \$650,000 is derived from a portion of the contribution made by the NRO for the IANA Numbering services pursuant to section 5.2 of the Service Level Agreement (SLA), whereby ICANN in turn contributed the total amount of this temporarily restricted contribution of \$650,000 related to the IANA functions to PTI as part of ICANN's total funding contribution to PTI. The additional funding of \$7,168,000 was contributed to PTI by ICANN. The funding contribution from ICANN to PTI were eliminated prior to consolidation of the financial statements.

(2) - For the year ended June 30, 2018, ICANN transferred \$4,868,000 in personnel expenses, \$453,000 in travel and meetings expenses, \$1,155,000 in professional services expense and \$1,342,000 in administration expenses to PTI for all expenses pertaining to IANA functions. These transfers from ICANN to PTI were eliminated prior to consolidation of the financial statements.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The segmented statement of activities for the year ended June 30, 2017:

<i>Year ended June 30, 2017</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Unrestricted support and revenue					
Registry	\$ 84,437	\$ -	\$ -	\$ -	\$ 84,437
Registrar	46,001	-	-	-	46,001
R.I.R.	823	-	650	(650) ⁽¹⁾	823
ccTLD contribution and fees	2,805	-	-	-	2,805
Contributions and other income	584	-	-	-	584
Auction proceeds	-	135,000	-	-	135,000
Revenue from New gTLD application fees	-	20,776	-	-	20,776
Contributions to PTI from ICANN	-	-	4,802	(4,802) ⁽¹⁾	-
Total support and revenue	134,650	155,776	5,452	(5,452)	290,426
Expenses					
Personnel	61,559	4,080	3,353	(3,353) ⁽²⁾	65,639
Travel and meetings	18,232	863	435	(435) ⁽²⁾	19,095
Professional services	26,644	15,370	528	(528) ⁽²⁾	42,014
Administration	27,986	865	1,136	(1,136) ⁽²⁾	28,851
Total expenses	134,421	21,178	5,452	(5,452)	155,599
Other income					
Investment gain	4,185	2,090	-	-	6,275
Total other income	4,185	2,090	-	-	6,275
Development costs (reimbursement)	(2,179)	2,179	-	-	-
Change in net assets	6,593	134,509	-	-	141,102
Unrestricted net assets, beginning of year	141,509	192,075	-	-	333,584
Unrestricted net assets, end of year	\$ 148,102	\$ 326,584	\$ -	\$ -	\$ 474,686

(1) - The segmented statement of activities for the year ended June 30, 2017 contained inter-company revenues and expenses between ICANN and PTI. The \$650,000 is derived from a portion of the contribution made by the NRO for the IANA Numbering services pursuant to section 5.2 of the Service Level Agreement (SLA), whereby ICANN in turn contributed the total amount of this temporarily restricted contribution of \$650,000 related to the IANA functions to PTI as part of ICANN's total funding contribution to PTI. The additional funding of \$4,802,000 was contributed to PTI by ICANN. The funding contribution from ICANN to PTI were eliminated prior to consolidation of the financial statements.

(2) - For the year ended June 30, 2017, ICANN transferred \$3,353,000 in personnel expenses, \$435,000 in travel and meetings expenses, \$528,000 in professional services expense and \$1,136,000 in administration expenses to PTI for all expenses pertaining to IANA functions. These transfers from ICANN to PTI were eliminated prior to consolidation of the financial statements.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The segmented statement of cash flows for the year ended June 30, 2018:

<i>Year ended June 30, 2018</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Cash flows from operating activities					
Change in net assets	\$ 1,026	\$ (24,694)	\$ -	\$ -	\$ (23,668)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:					
Depreciation expense	7,680	-	-	-	7,680
Bad debt expense	150	-	-	-	150
Investment gains	(3,080)	(4,286)	-	-	(7,366)
Changes in operating assets and liabilities:					
Accounts receivable	5,592	(119)	-	-	5,473
Prepaid expenses	(398)	-	-	-	(398)
Other assets	(835)	-	-	-	(835)
Accounts payable and accrued liabilities	(1,377)	148	50 ⁽³⁾	-	(1,179)
Inter-company	(8,660)	8,710	(50) ⁽³⁾	-	-
Deferred Revenue	(375)	10,952	-	-	10,577
Net cash provided (used in) operating activities	(277)	(9,289)	-	-	(9,566)
Cash flows from investing activities					
Purchases of capital assets	(2,449)	-	-	-	(2,449)
Proceeds from sale of investments	-	10,000	-	-	10,000
Purchases of investments	(5,028)	(67,891)	-	-	(72,919)
Net cash used in investing activities	(7,477)	(57,891)	-	-	(65,368)
Net decrease in cash and cash equivalents	(7,754)	(67,180)	-	-	(74,934)
Cash and cash equivalents, beginning of year	34,758	72,674	-	-	107,432
Cash and cash equivalents, end of year	\$ 27,004	\$ 5,494	\$ -	\$ -	\$ 32,498

(3) - The segmented statement of cash flow for the year ended June 30, 2018 contained inter-company accounts receivables and inter-company accounts payable between ICANN and PTI for \$50,000. These balances eliminate prior to consolidation of the financial statements.

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Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The segmented statement of cash flows for the year ended June 30, 2017:

<i>Year ended June 30, 2017</i>	ICANN	New gTLD	PTI	Elimination	Total
	<i>(US dollars in thousands)</i>				
Cash flows from operating activities					
Change in net assets	\$ 6,593	\$ 134,509	\$ -	\$ -	\$ 141,102
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:					
Depreciation expense	8,704	-	-	-	8,704
Investment gains	(4,185)	(2,090)	-	-	(6,275)
Loss on disposal of capital assets	19	-	-	-	19
Changes in operating assets and liabilities:					
Accounts receivable	(2,863)	214	-	-	(2,649)
Prepaid expenses	783	-	-	-	783
Other assets	(326)	-	-	-	(326)
Accounts payable and accrued liabilities	(759)	777	222 ⁽³⁾	-	240
Inter-company	(4,869)	5,091	(222) ⁽³⁾	-	-
Deferred revenue	462	(21,643)	-	-	(21,181)
Net cash provided by operating activities	3,559	116,858	-	-	120,417
Cash flows from investing activities					
Purchases of capital assets	(7,992)	-	-	-	(7,992)
Proceeds from sale of investments	13,584	10,000	-	-	23,584
Purchases of investments	-	(66,000)	-	-	(66,000)
Net cash provided by (used in) investing activities	5,592	(56,000)	-	-	(50,408)
Net increase in cash and cash equivalents	9,151	60,858	-	-	70,009
Cash and cash equivalents, beginning of year	25,607	11,816	-	-	37,423
Cash and cash equivalents, end of year	\$ 34,758	\$ 72,674	\$ -	\$ -	\$ 107,432

(3) - The segmented statement of cash flow for the year ended June 30, 2017 contained inter-company accounts receivables and inter-company accounts payable between ICANN and PTI for \$222,000. These balances eliminate prior to consolidation of the financial statements.

5. 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 consolidated statements of financial position.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

ICANN had one registry and one registrar totaling approximately \$53,331,000 or 40% of the total support and revenue for the year ended June 30, 2018. ICANN had one registry and one registrar totaling approximately \$52,608,000 or 39% of the total support and revenue for the year ended June 30, 2017. ICANN had accounts receivable at June 30, 2018 and 2017, from one registry and one registrar, amounting to approximately \$13,778,000 or 41% and \$13,266,000 or 33%, respectively.

6. Cash and Cash Equivalents

ICANN's cash and cash equivalents are maintained at financial institutions with high credit standings. ICANN considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

7. Accounts Receivable

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

	2018	2017
	<i>(US dollars in thousands)</i>	
gTLD registries and registrars	\$ 34,021	\$ 39,218
IP address registries	823	823
ccTLD and IDN Fast Track	280	714
Other	169	118
Total Accounts Receivable	35,293	40,873
Less: allowance for doubtful accounts	(1,044)	(1,001)
Total Accounts receivable, net	\$ 34,249	\$ 39,872

8. Investments

The guidance requires fair value measurements to be separately disclosed by level within the fair value hierarchy and requires a separate reconciliation of fair value measurements categorized as Level 3. Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy table below. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy table to the amounts presented in the statements of financial positions. Assets held in Collective trusts are also subject to the fair value measurement requirements and are separately disclosed below.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

Investments consist of the following as of June 30, 2018:

2018	Total	Level 1	Level 2	Level 3	NAV
<i>(US dollars in thousands)</i>					
Corporate bonds	\$ 114,694	\$ -	\$ 114,694	\$ -	\$ -
Government agencies bonds	82,370	-	82,370	-	-
Collective trusts	69,712	-	-	-	69,712
U.S. government bonds	67,677	-	67,677	-	-
Asset backed bonds	28,898	-	28,898	-	-
Money market funds	42,836	42,836	-	-	-
International bonds	15,712	-	15,712	-	-
Municipal and provincial bonds	501	-	501	-	-
Total investments	\$ 422,400	\$ 42,836	\$ 309,852	\$ -	\$ 69,712

Investments consist of the following as of June 30, 2017:

2017	Total	Level 1	Level 2	Level 3	NAV
<i>(US dollars in thousands)</i>					
Corporate bonds	\$ 122,024	\$ -	\$ 122,024	\$ -	\$ -
Government agencies bonds	70,295	-	70,295	-	-
Collective trusts	61,604	-	-	-	61,604
U.S. government bonds	34,301	-	34,301	-	-
Asset backed bonds	27,868	-	27,868	-	-
Money market funds	26,023	26,023	-	-	-
International bonds	8,497	-	8,497	-	-
Municipal and provincial bonds	1,503	-	1,503	-	-
Total investments	\$ 352,115	\$ 26,023	\$ 264,488	\$ -	\$ 61,604

The following table sets forth a summary of investments with a reported NAV as of June 30, 2018:

2018	<i>Fair Value Estimated Using NAV per Share</i>			
	<i>(US dollars in thousands)</i>			
Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Collective trusts (a)	69,712	N/A	One and ten days	One and two days

(a) The collective trusts investments include holdings in US bonds, international bonds, US equities, international equities, real estate investment trusts and money market funds.

The following table sets forth a summary of investments with a reported NAV as of June 30, 2017:

2017	<i>Fair Value Estimated Using NAV per Share</i>			
	<i>(US dollars in thousands)</i>			
Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Collective trusts (a)	61,604	N/A	One and ten days	One and two days

(a) The collective trusts investments include holdings in US bonds, international bonds, US equities, international equities, real estate investment trusts and money market funds.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

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

	2018	2017
	<i>(US dollars in thousands)</i>	
Dividend and interest income	\$ 5,247	\$ 2,784
Realized (losses)/gains	2,500	4,008
Unrealized (losses)/gains	398	(54)
Management fees and other	(779)	(463)
Total net investment gain	\$ 7,366	\$ 6,275

9. Capital Assets

Capital assets consist of the following as of June 30:

	2018	2017
	<i>(US dollars in thousands)</i>	
Computer equipment	\$ 8,946	\$ 8,385
Computer software	28,595	25,684
Furniture and fixtures	370	326
Leasehold improvements	5,982	5,796
Construction in progress	2,353	3,606
	46,246	43,797
Less: accumulated depreciation	(34,026)	(26,346)
Total Capital Assets	\$ 12,220	\$ 17,451

Depreciation expense for the years ended June 30, 2018 and 2017 was \$7,680,000 and \$8,704,000, respectively. For the year ended June 30, 2018, and 2017, the Company disposed of \$0 and \$6,830,000 of gross capital assets, and recognized a loss of \$0 and \$19,000, respectively.

10. Other Expense

In May 2018, the ICANN Board approved a resolution that decided that the contracted registries should not incur the expense corresponding to the Rights Protection Mechanisms Access Fee (RPM access fee) of \$5,000 that was due at the time of entering into a Registry Agreement. Those contracted registries that incurred the fee in the past were refunded such fee as a result of this decision. This resulted in \$6,127,000 in Other Expense for the New gTLD Program for the year ended June 30, 2018.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

11. 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 consolidated financial statements do not include a provision for any losses that may result from ICANN's current involvement in legal matters.

12. Related Party Transactions

ICANN is responsible for the performance of the Internet Assigned Numbers Authority (IANA) functions. Through contracts, ICANN has delegated the performance of the IANA functions to its affiliate Public Technical Identifiers (PTI). PTI's sole purpose is the performance of the IANA functions as delegated by ICANN under two contracts and three subcontracting agreements as follows:

Subcontract Name	Community Served	Parties to the Agreement	Date in Effect	Term
Services agreement	Names	ICANN/PTI	September 30, 2016	Agreement in force until terminated under a notice period
IANA Naming Function Contract	Names	ICANN/PTI	September 30, 2016	Five Years with automatic renewal pending certain requirements
Subcontract of Responsibilities under MoU/Supplemental Agreement	Protocol Parameters (IETF)	ICANN/PTI	September 30, 2016	Agreement in place until Revoked
Subcontract of Responsibilities under SLA	Numbers (RIRs)	ICANN/PTI	September 30, 2016	Agreement in place until Revoked
Subcontract of Responsibilities under RZMA	Names (RZMA)	ICANN/PTI	September 30, 2016	Agreement in place until Revoked

The contract/subcontracts are related to performing functions as designated by ICANN for the Names, Numbers and Protocol parameters communities. Each agreement references that ICANN shall provide or make available to PTI the necessary personnel, material, equipment, services and facilities to perform PTI's obligations. ICANN's obligation to provide those resources is set out more specifically in the Services Agreement between ICANN and PTI, which requires ICANN to make resources available to PTI.

Internet Corporation for Assigned Names and Numbers

Notes to Consolidated Financial Statements

The expenses incurred in connection with the ICANN/PTI Service Agreement classified by community group amounted to the following for the year ended June 30, 2018 and the period from October 1, 2016 (commencement of operations) to June 30, 2017:

	2018	2017
	<i>(US dollars in thousands)</i>	
Community		
Names	\$ 4,675	\$ 3,309
Numbers	1,157	789
Protocol parameters	1,986	1,354
Total	\$ 7,818	\$ 5,452

Although ICANN contracts and subcontracts with PTI to perform the IANA functions, ICANN remains ultimately responsible for delivering on the obligations under the ICANN-IETF MoU and Supplemental Agreement, the RIRs SLA, the ICANN Bylaws (through the IANA Naming Function Contract and RZMA).

All amounts from the Service Agreement between ICANN and PTI eliminate upon consolidation.

Board members are selected annually to provide services to ICANN. Total compensation for those who elected to receive compensation of approximately \$705,000 and \$702,000 was paid for the years ended June 30, 2018 and 2017, respectively.

Ms. J. Beckwith (“Becky”) Burr is a voting member of the ICANN Board of Directors. Ms. Burr, who became an ICANN Director in November 2016, is Deputy General Counsel and Chief Privacy Officer of Neustar. Neustar is the domain name registry .biz, .us (on behalf of United States Department of Commerce), .co (on behalf of the government of Colombia), and the back-end registry services provider for the .nyc and several other new top-level domains. Revenue to ICANN from Neustar and its subsidiaries amounted to approximately \$714,000 and \$541,000 for the years ended June 30, 2018 and 2017, respectively, under the fee structure of a Registry Agreement. To avoid any conflict of interest between ICANN and Neustar, Ms. Burr abstains from voting on all matters she identifies as a potential conflict of interest that come before the Board.

Rafael Lito Ibarra is a voting member of the ICANN Board of Directors. Mr. Ibarra, who became an ICANN Director in October 2015, manages and administrates the .SV domain name delegation (received from Jon Postel), as well as an IPv4 address block equivalent to a class B in addition to serving as Founding President and Executive Director for SVNet (Top Level Domain Registry for El Salvador). Revenue to ICANN from .SV or SVNet amounted to approximately \$2,000 and \$0 for the years ended June 30, 2018 and 2017, respectively under the structure of a cctld agreement. To avoid any conflict of interest between ICANN and SVNet, Mr. Ibarra abstains from voting on all matters he identifies as a potential conflict of interest that come before the Board.

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Notes to Consolidated Financial Statements

Dr. Bruce Tonkin was a voting member of the ICANN Board of Directors through October 2016. During the relevant time period, Dr. Tonkin was 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 approximately \$123,000 and \$135,000 for the years ended June 30, 2018 and 2017, respectively, under the fee structure of the standard Registrar Accreditation Agreement. To avoid any conflict of interest between ICANN and Melbourne IT, Dr. Tonkin abstained from voting on all matters he identified as a potential conflict of interest that came before the Board.

Ms. Lise Fuhr is a voting member of the PTI Board of Directors and Chair of the Board through November 2019. PTI is a controlled affiliate of ICANN, which commenced operations on October 1, 2016. Ms. Fuhr was appointed to the Internet Society Public Interest Registry Board of Directors for a three-year term starting in July 2016. Revenue to ICANN from the Internet Society Public Interest Registry (PIR) amounted to approximately \$2,650,000 and \$2,683,000 for the years ended June 30, 2018 and 2017, respectively, under the fee structure of its Registry Agreement with ICANN. In accordance with the PTI Conflicts of Interest Policy, Ms. Fuhr considers whether each item that comes before the PTI Board poses a potential conflict of interest and is required to disclose any such conflict of interest, if one arises.

Mr. Wei Wang is a voting member of the PTI Board of Directors through October 2020. PTI is a controlled affiliate of ICANN, which commenced operations on October 1, 2016. Mr. Wang served as the Vice President and Chief Engineer in KNET Technologies, the largest IDN New gTLD registry of “.网址/xn--ses554g”. He is also the general partner in KNET VC, a private equity firm focused on internet innovation investing. Revenue to ICANN from KNET Technologies amounted to approximately \$62,000 and \$53,000 for the years ended June 30, 2018 and 2017, respectively, under the fee structure of a Registry Agreement between with ICANN. In accordance with the PTI Conflicts of Interest Policy, Mr. Wang considers whether each item that comes before the PTI Board poses a potential conflict of interest and is required to disclose any such conflict of interest, if one arises.

Mr. Jonathan Robinson was a voting member of the PTI Board of Directors from October 2016 through October 2017. PTI is a controlled affiliate of ICANN that commenced operations on October 1, 2016. Mr. Robinson is the Executive Chairman of Afilias plc. Revenue to ICANN from Afilias plc and its subsidiaries amounted to approximately \$1,968,000 and \$2,187,000 for the years ended June 30, 2018 and 2017, respectively, under the fee structure of numerous Registry Agreements with ICANN. Mr. Robinson considered whether each item that came before the PTI Board posed a potential conflict of interest and was required to disclose any such conflict of interest, if one arose.

13. Commitments

ICANN leases its offices and certain other facilities under operating lease agreements that expire at various dates through May, 2024. The lease agreements have various termination clauses requiring three to thirty-four months' rent for early termination.

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Notes to Consolidated Financial Statements

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>
2019	\$ 3,970
2020	3,943
2021	3,928
2022	3,670
2023	620
Thereafter	587
	<hr/>
	\$ 16,718

Rent expense amounted to approximately \$4,381,000 and \$4,707,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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 approximately \$654,000 and at-risk compensation of up to \$196,000 - 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 (voting directors and non-voting liaisons), who specifically elect for it, receive compensation for their services on the Board. The voting directors are selected for three-year terms and the non-voting liaisons are selected for one to three-year terms. The aggregated amounts of expected compensation relative to the Board members who have elected to receive compensation, and assuming that the same number of board members continue to elect to receive compensation for the next three years, are \$700,000, \$700,000 and \$700,000 for the fiscal years ending June 30, 2019, 2020 and 2021 respectively.

14. 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, 2018 and 2017 amounted to approximately \$5,895,000 and \$5,338,000, respectively. At June 30, 2018 and 2017, the 401(k) Plan contributions payable were approximately \$996,000 and \$874,000, respectively.