



**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2006 and 2005**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Internet Corporation for Assigned Names and Numbers (ICANN) as of June 30, 2006 and 2005 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Internet Corporation for Assigned Names and Numbers. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Internet Corporation for Assigned Names and Numbers as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Los Angeles, California  
August 25, 2006

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**

**STATEMENTS OF FINANCIAL POSITION**

<b>JUNE 30,</b>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,789,947	\$ 1,910,069
Accounts receivable, net	13,516,070	9,372,070
Prepaid expenses	222,006	13,438
Other assets	54,722	15,243
Property and equipment, net	259,519	350,604
Total assets	<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,481,808	\$ 1,707,397
Deferred revenue	4,954,313	1,722,026
Total liabilities	<u>7,436,121</u>	<u>3,429,423</u>
<b>NET ASSETS</b>		
Unrestricted	<u>18,406,143</u>	<u>8,232,001</u>
Total liabilities and net assets	<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS****STATEMENTS OF ACTIVITIES**

<b>YEARS ENDED JUNE 30,</b>	<b>2006</b>	<b>2005</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Support and revenue		
Domain name registry and registrar fees	\$ 26,145,255	\$ 14,136,273
Address registry fees	823,000	823,000
Accreditation fees	1,965,210	1,992,893
Application fees	780,000	791,500
Contributed goods and services	-	5,999
Interest income and other income	107,539	57,646
Total support and revenue	<u>29,821,004</u>	<u>17,807,311</u>
Expenses		
Personnel	7,382,054	4,218,971
Board and public meetings	2,022,650	1,510,299
Other meetings and travel	1,775,634	1,121,398
Professional services	4,232,869	3,898,490
Administration	4,233,655	2,966,045
Total expenses	<u>19,646,862</u>	<u>13,715,203</u>
Change in net assets	<u>10,174,142</u>	<u>4,092,108</u>
<b>NET ASSETS, beginning of year</b>	<u>8,232,001</u>	<u>4,139,893</u>
<b>NET ASSETS, end of year</b>	<u>\$ 18,406,143</u>	<u>\$ 8,232,001</u>

**INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS****STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED JUNE 30,</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 10,174,142	\$ 4,092,108
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	145,014	111,609
Bad debt expense	2,026,424	1,203,989
Changes in operating assets and liabilities:		
Accounts receivable	(6,170,424)	(7,703,791)
Prepaid expenses	(208,568)	(13,438)
Other assets	(39,479)	20,382
Accounts payable and accrued liabilities	774,411	805,653
Deferred revenue	<u>3,232,287</u>	<u>1,066,394</u>
Net cash provided by (used in) operating activities	<u>9,933,807</u>	<u>(417,094)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(53,929)</u>	<u>(212,181)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,879,878	(629,275)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,910,069</u>	<u>2,539,344</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 11,789,947</u>	<u>\$ 1,910,069</u>

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION

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 organization. ICANN coordinates a select set of the Internet's technical management functions, such as the assignment of protocol parameters, the management of the domain name system, the allocation of Internet protocol (IP) address space, and the management of the root server system. Categories of Internet domains include Generic Top Level Domains (gTLDs) which include the *.com*, *.net*, *.org*, and *.edu* domains and Country Code Top Level Domains (ccTLDs), examples of which are *.us*, *.uk*, and *.fr*. ICANN generates income from fees received from domain name registrars and related accreditation activities. Its primary sources of revenue are as follows:

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

ICANN also receives contributions and grants from other organizations.

ICANN has three supporting organizations which serve as advisory bodies to the ICANN board of directors with respect to internet policy issues and structure within three specialized areas, including the system of IP addresses and the domain name system. The supporting organizations are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The three supporting organizations are the Address Supporting Organization (ASO), Generic Names Supporting Organization (GNSO), and the Country Code Domain Name Supporting Organization (CCNSO). The supporting organizations are not separately incorporated entities. Transactions handled by ICANN on behalf of GNSO are included in the accompanying financial statements.

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the objectives of ICANN.
- *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 subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of ICANN's programs and operations unless otherwise stipulated by the donor.

As of June 30, 2006 and 2005, ICANN has no permanently or temporarily restricted net assets.

**Functional allocation of expenses** - Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management. As of and for the years ended June 30, 2006 and 2005, respectively, ICANN's expenses are classified as follows:

	<u>2006</u>	<u>2005</u>
Program services	\$ 12,633,591	\$ 8,656,483
Supporting services:		
Management and general	<u>7,013,271</u>	<u>5,058,720</u>
Total	<u>\$ 19,646,862</u>	<u>\$ 13,715,203</u>

**Advertising costs** - Advertising cost are expensed in the period incurred. Advertising expense amounted to \$53,430 and \$0, for the years ended June 30, 2006 and 2005, respectively.

**Cash and cash equivalents** - Cash and cash equivalents include deposits in bank, money market accounts, and marketable commercial paper. The Organization considers all cash and financial instruments with maturities of three months or less when purchased by the Organization to be cash and cash equivalents.



## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property and equipment** - Property and equipment are stated at cost or, for contributed items, at fair market value at date of contribution. The equipment, furniture and fixtures are being depreciated using the accelerated method over estimated useful lives of five to seven years. Leasehold improvements are being depreciated using the straight-line method over the useful life or the remaining lease term, whichever is shorter. Acquisitions of property and equipment in excess of \$10,000 are capitalized.

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

**Contributed goods and services** - The value of significant donated goods is reflected as contributions in the accompanying financial statements. For the year ended June 30, 2005, ICANN received \$5,999 in contributed goods. There were no contributed goods for the year ended June 30, 2006.

Contributed services are recognized only if the services (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the years ended June 30, 2006 and 2005, no contributed services were received.

**Income taxes** - ICANN is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Concentration of credit risk** - Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash with major financial institutions. The 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 customers comprising the Organization's customer base.

# INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Accounts Receivable** - The Organization carries its accounts receivable at invoiced amounts less allowances for doubtful accounts. The Organization does not accrue interest on its receivables. On a periodic basis, the Organization evaluates its accounts receivable and establishes allowances based on overdue accounts and a history of past write-offs. In the year ended June 30, 2005, the Organization did not have any major customers; however during the year ended June 30, 2006, there was one major customer totaling approximately \$4,725,000 or 15.9% of net revenues. At year end, the Organization had an accounts receivable amount totaling approximately \$1,664,000 due from this major customer.

**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.

### NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following constituencies for various registry, registrar and accreditation fees at June 30:

	<u>2006</u>	<u>2005</u>
ccTLDs	\$ 572,463	\$ 659,593
gTLD registries and registrars	14,351,088	8,864,465
IP address registries	<u>2,615,911</u>	<u>1,844,980</u>
	17,539,462	11,369,038
Less allowance for doubtful accounts	<u>(4,023,392)</u>	<u>(1,996,968)</u>
	<u>\$ 13,516,070</u>	<u>\$ 9,372,070</u>

## INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Computer equipment	\$ 645,791	\$ 628,655
Computer software	20,128	-
Furniture and fixtures	140,855	140,855
Leasehold improvements	<u>128,980</u>	<u>112,315</u>
	935,754	881,825
Less accumulated depreciation	<u>(676,235)</u>	<u>(531,221)</u>
	<u>\$ 259,519</u>	<u>\$ 350,604</u>

#### NOTE 5 - LEGAL MATTERS

In the ordinary course of business, ICANN is subject to lawsuits and other potential legal actions. Management is unable at this time to determine the probable outcome or the effect, if any, that these actions may have on the financial position and the ongoing operations of the Company. Accordingly, the accompanying financial statements do not include a provision for any losses that may result from the Company's current involvement in legal matters.

#### NOTE 6 - RELATED PARTY TRANSACTIONS

The individual acting as ICANN's president and chief executive officer (CEO) is currently provided to ICANN through a professional services agreement with a Organization in which the president and CEO has an interest. Total payments for the years ended June 30, 2006 and 2005, including fees for professional services and reimbursed expenses (airfare and travel-related expenses, telecommunications, information technology supplies and support, and office supplies), were approximately \$626,000 and \$591,000, respectively. Included in accounts payable and accrued liabilities as of June 30, 2006 and 2005, is approximately \$32,000 and \$54,000, respectively, of reimbursable expenses payable to the affiliated company.

#### NOTE 7 - COMMITMENTS

The Organization leases its offices and certain other facilities under two operating lease agreements with termination clauses from three to six months. Rent expense amounted to approximately \$510,000 and \$345,000 for the years ended June 30, 2006 and 2005, respectively. Minimum payments under the cancelable operating leases for the future year ending June 30, 2007 is \$207,195.

## **INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN**

The Organization'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 the Company. The Organization contributes 5% of employee's salary to the plan regardless of employee contributions. The Organization furthermore matches employee contributions up to 10% of the employee's annual income. Employer contributions for the years ended June 30, 2006 and 2005 amounted to \$490,060 and \$306,209, respectively.