

**ICANN**  
**Statements of Financial Position - Variance Analysis**  
**30 June 2006 vs. 30 June 2005**

		30-Jun 2006	30-Jun 2005	Variance	
				Amount	%
<b>ASSETS</b>					
Cash & cash equivalents	(A)	11,789,947	1,910,069	9,879,878	517.3%
Accounts receivable, net	(B)	13,516,070	9,372,070	4,144,000	44.2%
Prepaid & deferred expenses	(C)	222,006	13,438	208,568	1552.1%
Property & equipment, net	(D)	259,519	350,604	(91,085)	-26.0%
Other assets		54,722	15,243	39,479	259.0%
Total assets		<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>	<u>\$ 14,180,840</u>	<u>2346.6%</u>
<b>LIABILITIES</b>					
Accounts payable & accrued liabilities	(E)	2,481,808	1,707,397	774,411	45.4%
Deferred revenue	(F)	4,954,313	1,722,026	3,232,287	187.7%
Total liabilities		<u>\$ 7,436,121</u>	<u>\$ 3,429,423</u>	<u>\$ 4,006,698</u>	<u>233.1%</u>
<b>NET ASSETS</b>					
Unrestricted	(G)	<u>\$ 18,406,143</u>	<u>\$ 8,232,001</u>	<u>\$ 10,174,142</u>	<u>123.6%</u>
Total liabilities and net assets		<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>	<u>\$ 14,180,840</u>	<u>356.7%</u>

**EXPLANATION OF MATERIAL VARIANCES -- JUNE 2006 VS. JUNE 2005:**

- (A) The increase in cash & cash equivalents was planned given an ICANN Board Finance Committee recommendation that ICANN build cash reserves of 9-12 months of operating expenses to allow for responsible cash management. Progress toward that goal to date has been achieved through an increase in budgeted revenues, revenues realized in excess of the budget, and deferment of expenditures to match the timing of revenue receipts.
- (B) Two factors contributed to the increase in accounts receivable. First, total budgeted revenues increased by 47% for the same period, from \$16.0 million to \$23.6 million, due to increased fees from gTLD registrars and gTLD registries. In addition, \$8.8 million of the year-end accounts receivable balance for fiscal year 2005-06 represents an accrual for fourth quarter invoices issued after June 30 that carry due dates after the close of fiscal year 2005-06.
- (C) Prepaid expense increased due primarily to a change in accounting methodology to expense insurance and maintenance contracts based on the period of service rather than the period in which they are paid. In addition, prepaid expense includes ICANN meeting costs paid to hotels in the amount of \$113K at the end of fiscal year 2005-06 which will be expensed in the following fiscal year based on detail billings subsequently provided for the meetings.
- (D) Net property & equipment decreased during the current fiscal year. This can be attributed to an increase in computer equipment, furniture & fixtures and leasehold improvements of \$54K, which were offset by an increase of (\$145K) in accumulated depreciation on prior additions.
- (E) The increase in Accounts payable & accrued liabilities is in proportion to the 45% increase in total budgeted expenditures from \$15.8 million in fiscal year 2004-05 to \$23.0 million in fiscal year 2005-06.
- (F) Deferred revenues result from revenues invoiced in the current fiscal year, that are attributable to periods beyond the end of the current fiscal year and will be recognized in such future periods. In past years (through June 2004), only gTLD registrar accreditation fees were included in deferred revenues; these deferred accreditation fees increased \$723K due to the increase in the number of accredited registrars. With the introduction of transaction-based fees during fiscal year 2004-05, registrar transaction-based fees became an additional component of deferred revenue; deferred registrar transaction fees increased \$1,331K in fiscal year 2005-06. In fiscal year 2005-06 registry transaction fees were introduced as an additional component of deferred revenue; deferred registry transaction fees increased \$1,178K during fiscal year 2005-06.
- (G) Unrestricted net assets increased by \$10.1 million, which represents the increase in net assets due to operations for fiscal year 2005-06 as reported on the Statement of Activities (see page 2 of this analysis).

**ICANN**  
**Statements of Activities - Variance Analysis**  
**Year Ended 30 June 2006 vs. Year Ended 30 June 2005**

		30-Jun 2006	30-Jun 2005	Variance	
				Amount	%
<b>SUPPORT &amp; REVENUE</b>					
Domain name registry & registrar fees	(H)	26,145,255	14,136,273	12,008,982	85.0%
Address registry fees		823,000	823,000	-	0.0%
Accreditation fees		1,965,210	1,992,893	(27,683)	-1.4%
Application fees		780,000	791,500	(11,500)	-1.5%
Contributed goods & services		-	5,999	(5,999)	-100.0%
Interest income & other income	(I)	107,539	57,646	49,893	86.6%
Net assets released from restrictions			-	-	0.0%
Total support & revenue		<u>\$ 29,821,004</u>	<u>\$ 17,807,311</u>	<u>\$ 12,013,693</u>	<u>68.7%</u>
<b>EXPENSES</b>					
Personnel	(J)	7,382,054	4,218,971	3,163,083	75.0%
Board & public meetings	(K)	2,022,650	1,510,299	512,351	33.9%
Other meetings & travel	(L)	1,775,634	1,121,398	654,236	58.3%
Professional services	(M)	4,232,869	3,898,490	334,379	8.6%
Administration	(N)	4,233,655	2,966,045	1,267,610	42.7%
Total expenses		<u>\$ 19,646,862</u>	<u>\$ 13,715,203</u>	<u>\$ 5,931,659</u>	<u>218.6%</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		<u>\$ 10,174,142</u>	<u>\$ 4,092,108</u>	<u>\$ 6,082,034</u>	<u>-149.9%</u>

**EXPLANATION OF MATERIAL VARIANCES -- JUNE 2006 VS. JUNE 2005:**

- (H) Domain name registry & registrar fees increased by \$12.0 million. Total gTLD registrar revenues increased by \$7.0 million, due to increase in number of name registrations, and fiscal year 2005-06 being the first full year of registrar transaction based fees (introduced four months into fiscal year 2004-05). Total gTLD registry revenues increased by \$5.1 million due primarily to the introduction of .net transaction fees.
- (I) Interest income increased by \$49.9K due primarily to increasing cash reserves in accordance with the Board Finance Committee priority to build cash reserves.
- (J) Personnel expenses increased \$3,163K due primarily to increased staffing from 36 at June 2005 to 47 at June 2006. The personnel category reflects costs associated with full-time staff or full-time consultant positions only. Payroll and related expenses for employee benefits, payroll taxes and insurance increased \$2,209K, consulting fees and temporary help expenses increased \$747K, and recruiting/relocation expenses increased \$207K.
- (K) Board & public meeting expenses increased \$512K due to a few factors: higher travel costs incurred due to location of the New Zealand meeting; staff and consultants traveling to meetings at ICANN's expense continued to increase in order to meet stakeholder requests for workshops and other activities at meetings. Major components were increased airfare and other transportation costs of \$235K, and increased hotel and meals costs of \$337K.
- (L) Other meetings & travel increased due to additional staff traveling (including those in regional liaison roles in various countries), and increased travel demands in support of the WSIS process, outreach activities, and global participation efforts. Airfare and other transportation costs increased by \$520K and hotel and meals costs increased by \$136K.
- (M) Professional services increased by \$334K which, in many cases, were incurred in lieu of additional salary expense for filling staff positions on a permanent basis. Other consultant costs increased \$360K (including human resources services, security, and various expert analyses), public & governmental affairs increased \$268K. The increases were partially offset by a decrease in both legal fees of (\$201K) and computer consultants of (\$97K).
- (N) Administration increased by \$1,268K. Bad debt expense increased \$822K due to increased revenues; bad debt expense remained flat at 6.8% of total revenues. Telephone/network expenses increased \$204K due to additional staffing and increased conference calling expenditures. Rent increased \$165K due to the lease of additional space in Marina del Rey beginning in January 2005 to accommodate increased staffing. Depreciation expense increased \$33K due primarily to continued depreciation of increased capital expenditures from the prior fiscal year 2004-05.