

13 October 2014

# ICANN 51 Finance Open Session

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CFO

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# Agenda

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- 1- FY14 Closing – Overview
- 2- FY15 Budget process conclusion
- 3- Planning Framework / FY16
- 4- Revenue recognition change
- 5- New auditors
- 6- Q&A

# 1- FY14 Closing overview

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1-1 Operations overview

1-2 New gTLD overview

1-3 Total ICANN overview

# 1-1 FY14 Operations closing financials

In million USD

OPS	<u>FY14 Actuals</u>	<u>FY14 Budget</u>
Revenue	85	88
Expenses	-93	-92
Ops – Net asset change	-8	-4
Invest. Gains/losses + HDC	14	12
Total – Net asset change	6	8

Comments	Act Vs Budget	Act Vs Forecast
Revenue	Lower new registries rev. due to delay in delegation ramp up	Higher due to higher historical registries transactions numbers
Expenses	Higher LS, IG activities, Ops, offset by lower GDD	Higher IG activities and London Costs

# 1-2 FY14 New gTLD closing financials

In million USD

<b>New gTLD</b>	<u>FY14 Actuals</u>	<u>FY14 Budget</u>
Revenue	41	112
Expenses	-33	-62
Ops – Net asset change	8	50
Invest. Gains/loss + HDC	-3	-11
Total – Net asset change	5	39

Comments	Act Vs Budget	Act Vs Forecast
Revenue	Lower revenue due to (i) project delay, (ii) extending financials to FY17	Lower revenue due to extending financials to FY17
Expenses	Lower expenses due to project delay.	Lower expenses due to project delay.

# 1-3 FY14 TOTAL closing financials

In million USD

<b>TOTAL = OPS + New gTLD</b>	<b><u>Actual</u></b>		<b><u>Budget</u></b>
<i>Revenue</i>	126	<	200
<i>Expenses</i>	-126	>	-154
<b><i>Ops – Net asset change</i></b>	0	<	46
<i>Investments gains/loss</i>	11	>	1
<b><i>Total – Net asset change</i></b>	11	<	47

# 2- FY15 Budget process conclusion

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2-1 Overview of last steps since ICANN 50 (London)

2-2 Changes between Draft and Final Budget

2-3 Overview of Final budget approved

2-4 Public comments and responses

2-5 USG Transition costs

## 2-1 Overview of last steps since ICANN50

Jul 1	<ul style="list-style-type: none"><li>• Public comment period end</li></ul>
Jul 1 to Aug 15	<ul style="list-style-type: none"><li>• Drafted answers to public comments</li><li>• Changes to draft budget</li></ul>
Aug 19	<ul style="list-style-type: none"><li>• BFC approval of budget changes</li></ul>
Sep 9	<ul style="list-style-type: none"><li>• Board approval</li></ul>
Sep 23	<ul style="list-style-type: none"><li>• Publication of public comment responses</li></ul>



# 2-2-1 FY15 Budget: Revenue sensitivity analysis

In \$millions	Scenarios			
	Low-1	Medium	High-1	Draft Budget
<b>Historical registries (22)</b>				
<b>Parameters</b>				
Transaction variance rate (vs FY14)	1%	4%	7%	0%
<b>Results</b>				
Transaction # (in millions)	148.1	152.5	156.9	146.6
Registry fee (Fixed + Variable)	43,545	44,836	46,126	43,545
Registrar fee (Variable)	26,700	26,436	28,286	26,436
<b>New registries</b>				
<b>Assumptions</b>				
Average duration of registrations	1.5	1.5	1.5	1.9
Average # of month in FY15	6	6	6	6
<b>Parameters</b>				
Beginning of year # of registries	322	322	322	400
End of year # of registries	872	1012	1122	1200
# of transactions / registry (> 50,000)	50000	60000	70000	70000
# of transactions / registry(< 50,000)	10000	15000	20000	20000
% of registries above 50,000 tr/yr	14%	19%	28%	30%
<b>Results</b>				
Average monthly new registries	46	58	67	67
Transactions # (in millions)	9.9	15.0	23.4	33.2
Registry fee (Fixed)	14,925	16,675	18,050	20,000
Registry fee (Variable)	633	1,187	2,201	7,680
Registrar fee (Variable)	1,348	1,979	3,009	3,417
<b>Revenues with no sensitivity analysis</b>				
Registrar - fixed fee revenue	8,476	8,476	8,476	8,476
Other revenues	4,423	4,423	4,423	4,423
<b>Total resulting revenue</b>	<b>100,051</b>	<b>104,012</b>	<b>110,572</b>	<b>113,976</b>

# 2-2-2 Changes between Draft and Final budget

	<u>Draft Budget</u>	<u>Changes</u>	<u>Final Budget</u>
Revenue	114	-10	104
Operating Expenses	-111	+10	-101
USG expenses (1)	-5	-2	-7
Net asset change	-2	-2	-4
Net asset change – Cash impact	+4	-2	2
Capital Expenditures	-9	+1	-8
Funding from Reserve Fund (1)	5	+2	7
Net impact of Operations	0	-	0

(1): The USG transition expenses are covered by the Reserve Fund.

## 2-2 Operating expenses reduction

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- Operating costs reductions : 4.0m
  - Hiring delay: 1.4m
  - Travel: 1.0m
  - Prof. Serv.: 1.1m
  - Admin.: 0.5m
- Reduction of contingency : 2.6m
- USG transition related expenses : 2.3m
- No gala at meetings (if no sponsor) : 0.6m
- Capital expenditure reduction : 0.5m

No cancelation of projects or significant activities

## 2-3 Final FY15 Budget

in millions, USD	FY15 Budget		
	ICANN Ops	New gTLD Program	Total
<b>TOTAL SUPPORT AND REVENUE</b>	<b>104.0</b>	<b>54.9</b>	<b>158.9</b>
<b>OPERATING EXPENSES</b>			
Personnel	51.1	9.3	60.4
Travel & Meetings	13.0	1.0	14.0
Professional Services	20.6	20.1	40.7
Administration	14.2	2.2	16.4
Bad Debt Expenses	0.5	0.0	0.5
Depreciation Expenses	4.8	0.0	4.8
Community Support Requests	0.7	0.0	0.7
Contingency	3.4	0.0	3.4
<b>Operating Expenses</b>	<b>108.3</b>	<b>32.7</b>	<b>141.0</b>
<b>CHANGE IN NET ASSETS DUE TO OPERATING ACTIVITIES</b>	<b>(4.2)</b>	<b>22.2</b>	<b>18.0</b>
Historical Development Costs	5.7	(5.7)	0.0
<b>CHANGE IN NET ASSETS</b>	<b>\$1.5</b>	<b>\$16.5</b>	<b>\$18.0</b>

## 2-4 Public comments and responses

51 comments total (less than FY14 however At Large and Registrars SG were late in submitting).

- BC; RySG; SOPWG of ccNSO

### By Objectives

- Affirmation of Purpose- 8
- Globalization – 3
- Multistakeholder Model Evolution- 11
- Operational Excellence- 8

# 2-4 Public comments and responses

- **IANA stewardship transition** - clarification on \$4.7m
- **Revenue & expenses**- revenue assumptions too optimistic and expenditure is too high
  - *“The assumption that the new gTLD registries will register 33 million domain names in 2015 is quite optimistic”- SOPWG ccNSO*
  - *“We notice a considerable increase in operating expenses (+25% incl. new gTLDs). Looking at the current revenue we believe the increase might be dangerously high and recommend ICANN to consider adequate measures in case revenues are not in line with projections”. – SOPWG ccNSO*
- **Linkage between Strategic Plan & Operating Plan**-
  - *“How do ICANN’s four strategic objectives & budgeted expense items relate to the mission statement and Strategic Plan?” - RySG*
- **Overall improvements**- people appreciated more details added (first time we’ve put in Project level and added more clarifications)
  - *“We welcome the improvement in defining deliverables and inclusion of KSFs.”*
  - *The format made it relatively easy to review and the notes supporting the tables of data were very helpful.”*
  - *“FY14 op plan and budget did not include any project dollar amounts. This year total project costs are provided of a sampling of projects which is a big improvement.”*

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## 2-5 USG Transition costs

Track	FTE (1)	Personnel (2)	Travel & Meetings	Prof. Svcs.	Total
Transition of U.S. Government stewardship of IANA functions	2.7	\$0.6	\$1.0	\$1.6	\$3.1
Strengthen ICANN Governance & Accountability	2.4	\$0.5	\$0.6	\$1.2	\$2.3
Post-Transition: Document strengthened relationships with policy and advisory bodies	1.2	\$0.2	\$0.0	\$0.6	\$0.8
Maintain security and stability of implementation of root zone updates	0.1	\$0.0		\$0.7	\$0.7
<b>Total</b>	<b>6.3</b>	<b>\$1.3</b>	<b>\$1.5</b>	<b>\$4.1</b>	<b>\$6.9</b>

1) FTE = Full Time Equivalent (headcount)

2) Personnel includes support from the following departments: Strategic Reviews and Initiatives; Communications; Legal; and Project Management.

# 3-1 Planning Framework: overview

## Planning Framework





# 3-2 FY16 Planning Process

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Develop a calendar by October end that includes...

- Integrating the 5-yr Operating Plan public comment inputs into the development of the FY16 Operating Plan and Budget
- Completing the FY16 Operating Plan and Budget for public comment process
- Obtaining Board approval by June end

Plan

Prioritize

Align

**With all stakeholders**

# 4. Revenue recognition

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## Historically:

- Billed during the quarter when transactions occur,
- Revenue booked over the duration of the registration (from 1 to 10 years).

## Conclusion after research:

- Revenue is earned immediately, there is no on-going obligation over the duration of the registration.
- Revenue should be booked when billed

## Results:

- Financial statements simplified
- Accounting process easier (no need to track multi-year transactions)
- No impact on cash, no impact billing
- Auditors reviewed and agreed

# 5. New independent auditor

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- Moss Adams, auditor since 2006
- Board Audit Committee decision to change
- Open RFP in March, with 5 bidders
- Selected BDO, 5<sup>th</sup> largest audit firm (after “Big 4”)  
[www.bdointernational.com](http://www.bdointernational.com)

# 6. Q&A

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