[redacted]

Internet Systems Consortium

Combined Financial Statements

For the Years Ended

December 31, 2013 and 2012

With Independent Auditors' Report

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INTERNET SYSTEMS CONSORTIUM

(A Delaware Not-For-Profit Corporation)
December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Internet Systems Consortium

We have audited the accompanying combined financial statements of Internet Systems Consortium (A Delaware Nonprofit Corporation) which comprise the combined statements of financial position as of December 31, 2013 and 2012 and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 audits to obtain reasonable assurance about whether the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Internet Systems Consortium as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

[redacted]

Danville, California
June 5, 2014

INTERNET SYSTEMS CONSORTIUM

Combined Statements of Financial Position
December 31, 2013 and 2012

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	$ 2,533,539	$ 1,588,136
Accounts receivable	1,575,649	1,447,862
Prepaid expenses and other current assets	93,054	79,720
Total current assets	4,202,242	3,115,718
Investments		
Property, equipment and leasehold improvements, net	853,119	1,849,933
	$ 5,055,361	$ 4,965,651

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities:		
Accounts payable and other accruals	$ 744,852	$ 355,044
Accrued payroll liabilities	454,481	523,680
Deferred revenue	2,229,723	2,173,176
Total current liabilities	3,429,056	3,051,900
Net assets:		
Unrestricted	1,626,305	1,862,885
Temporarily restricted	-	50,866
Total net assets	1,626,305	1,913,751
	$ 5,055,361	$ 4,965,651

Combined Statements of Activities and Changes in Net Assets
Years Ended December 31, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenue and support:		
Memberships (net of discounts)	**1,061,033**	1,148,060
Software support	**1,094,531**	2,279,431
Software development	**360,000**	943,113
Services / Training / Consulting	**2,979,938**	2,053,697
F Root	**308,984**	348,670
Donations and grants	**249,420**	3,254,059
Reimbursements and other income	**660,739**	922,212
Subscriptions	**1,829,650**	46,667
	8,544,295	10,995,909
Net assets released from restrictions:		
Satisfaction of program restrictions	**50,866**	978,325
Total net assets released from restrictions	**50,866**	978,325
Total revenue and support	**8,595,161**	11,974,234
Operating expenses:		
Program	**9,618,412**	8,257,806
General and administrative	**1,958,602**	1,334,318
Fund raising	**350,463**	326,405
Total operating expenses	**11,927,477**	9,918,529
Increase (decrease) in unrestricted net assets before gain on sale	**(3,332,316)**	2,055,705
Gain on sale of assets	**3,095,736**	-
Increase (decrease) in unrestricted net assets	**(236,580)**	**2,055,705**
Changes in temporarily restricted net assets:		
Grants and contributions	**-**	843,466
Net assets released from restrictions	**(50,866)**	(978,325)
Decrease in temporarily restricted net assets	**(50,866)**	(134,859)
Increase (decrease) in net assets	**(287,446)**	1,920,846
Net assets at beginning of year	**1,913,751**	(7,095)
Net assets at end of year	**1,626,305**	1,913,751

Combined Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Increase (decrease) in net assets	$ (287,446)	$ 1,920,846
Adjustments to reconcile to cash provided by (used for) operating activities:		
Depreciation and amortization	1,133,821	540,465
Changes in:		
Grants receivable	-	480,978
Accounts receivable	(127,787)	220,162
Prepaid expenses and other current assets	(13,334)	(22,017)
Accounts payable and accrued liabilities	389,808	(283,630)
Accrued payroll liabilities	(69,199)	(95,665)
Deferred revenue	56,547	(325,019)
Cash provided by operating activities	1,082,410	2,436,120
Acquisition of property and equipment, net	(137,007)	(1,860,025)
Cash used for investing activities	(137,007)	(1,860,025)
Increase in cash and cash equivalents	945,403	576,095
Cash and cash equivalents at beginning of year	1,588,136	1,012,041
Cash and cash equivalents at end of year	$ 2,533,539	$ 1,588,136
Interest paid	$ 4,191	$ -
Tax registration fees	$ 150	$ 150

Combined Statement of Functional Expenses
Year Ended December 31, 2013

	Programs	General & Administrative	Fund Raising	2013 Totals
Bad debts	$ 7,438	$ -	$ -	**$ 7,438**
Bank charges and other fees	-	13,051	-	**13,051**
Commissions	-	606,936	-	**606,936**
Conferences and Seminars	-	3,346	-	**3,346**
Connectivity and bandwidth	657,686	-	-	**657,686**
Cost of memberships	192,896	-	-	**192,896**
Cost of software support	334,544	-	-	**334,544**
Cost of software development	1,352,720	-	-	**1,352,720**
Cost of services /training/consulting	2,212,122	-	-	**2,212,122**
Cost of F Root	68,447	-	-	**68,447**
Cost of other services	252,881	-	-	**252,881**
Depreciation and amortization	963,748	170,073	-	**1,133,821**
Dues and subscriptions	-	16,300	-	**16,300**
Fundraising/promotion/marketing	-	-	251,466	**251,466**
Insurance	30,286	10,095	-	**40,381**
Interest and finance charges	-	47,115	-	**47,115**
Miscellaneous	33,540	4,574	-	**38,114**
Postage and shipping	8,708	1,593	319	**10,620**
Professional fees and outside services	806,189	592,129	-	**1,398,318**
Rent and utilities	265,770	48,616	9,723	**324,109**
Repairs and maintenance	95,943	17,550	3,510	**117,003**
Salaries, payroll taxes and benefits	2,026,468	370,695	74,139	**2,471,302**
Supplies and office	42,408	7,757	1,551	**51,716**
Telephone and telecommunications	37,190	6,803	1,361	**45,354**
Travel, meals and entertainment	229,428	41,969	8,394	**279,791**
Totals	$ 9,618,412	$ 1,958,602	$ 350,463	**$ 11,927,477**

Combined Statement of Functional Expenses
Year Ended December 31, 2012

	Programs	General & Admin-istrative	Fund Raising	2012 Totals
Bad debts	$ 225,129	-	-	**225,129**
Bank charges and other fees	-	18,701	-	**18,701**
Commissions	-	511,634	-	**511,634**
Conferences and Seminars	-	2,975	-	**2,975**
Connectivity and bandwidth	624,724	-	-	**624,724**
Cost of memberships	179,055	-	-	**179,055**
Cost of software support	352,141	-	-	**352,141**
Cost of software development	948,414	-	-	**948,414**
Cost of services /training/consulting	1,598,075	-	-	**1,598,075**
Cost of F Root	112,452	-	-	**112,452**
Cost of other services	375,206	-	-	**375,206**
Depreciation and amortization	459,395	81,070	-	**540,465**
Dues and subscriptions	-	24,992	-	**24,992**
Fundraising/promotion/development	-	-	218,214	**218,214**
Insurance	29,578	9,859	-	**39,437**
Miscellaneous	24,940	3,401	-	**28,341**
Postage and shipping	6,518	1,192	238	**7,948**
Professional fees and outside services	363,376	87,140	-	**450,516**
Rent and utilities	283,991	51,950	10,390	**346,331**
Repairs and maintenance	103,922	19,010	3,802	**126,734**
Salaries, payroll taxes and benefits	2,258,448	413,131	82,626	**2,754,205**
Supplies and office	8,109	53,592	-	**61,701**
Telephone and telecommunications	38,043	6,959	1,392	**46,394**
Travel, meals and entertainment	190,096	34,774	6,955	**231,825**
Totals	$ 8,181,612	1,320,380	323,617	**9,825,609**

Notes to Combined Financial Statements
December 31, 2013 and 2012

1. Organization and Combination

The combined financial statements include the accounts of:

- Internet Systems Consortium, Inc. which is a 501(c)(3) nonprofit corporation incorporated in the state of Delaware, with employees in Alaska, California, Florida, Georgia, Maryland, Massachusetts, New York, North Carolina, Oklahoma, Oregon, Tennessee, Texas, Australia, Canada, France, the Netherlands, Spain, and the United Kingdom. ISC has a global constituency and is dedicated to supporting the infrastructure of the universal connected self-organizing Internet—and the autonomy of its participants—by developing and maintaining core production quality software, protocols, and operations
- Internet Systems Corporation which is a for-profit "C" corporation incorporated in the state of Delaware and wholly-owned by Internet Systems Consortium. The two organizations are collectively referred to as ISC.

Founded in 1994 under an initial grant from UUNET Communications Services, Inc., ISC's current funding is from donations, program membership fees and by increasing revenues from Internet Systems Corporation.

2. Summary of Significant Accounting Policies

The combined financial statements of ISC have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, . All significant balances and transactions between ISC's intercompany accounts have been eliminated in the combined statements of financial position.

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

ISC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. ISC maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. ISC has not experienced any losses in such accounts.

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes, approximate carrying values of such amounts.

2. Summary of Significant Accounting Policies

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. The cost of property and equipment greater than $1,000 is capitalized and depreciated over the estimated useful life of each class of depreciable asset.

In accordance with accounting principles generally accepted in the United States of America under ASC 958.205, combined financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

ISC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions. The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. ISC had no permanently restricted net assets as of December 31, 2013 and 2012.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set-aside as of December 31, 2013 and 2012.

At December 31, 2012, ISC had $50,866 in temporarily restricted net assets. There were no temporarily restricted net assets at December 31, 2013. For the years ended December 31, 2013 and 2012, net assets released from restrictions amounted to $50,866 and $978,325, respectively.

ISC receives revenue from a variety of sources. Revenues from other restricted grants and donations are recognized as income in the temporarily restricted fund in the period in which donor conditions are met and grant proceeds are considered earned.

2. Summary of Significant Accounting Policies

ISC records contributions in accordance with the recommendations of ASC 958.605,

2. Summary of Significant Accounting Policies

Internet Systems Corporation was organized as a subsidiary of Internet Systems Consortium, Inc. and incorporated as a Delaware "C" corporation. Accordingly, it is a separate taxable entity and must file annual tax returns with the Internal Revenue Service. Additionally, Internet Systems Corporation was required to register with the State of California and file annual tax filings with the California Franchise Tax Board. The Company prepares and files its tax returns utilizing the accrual-basis method of accounting, in accordance with all applicable Federal and state laws.

Certain reclassifications have been made to the 2012 combined financial statements in order to conform to the presentation used in 2013.

3. Property, Equipment and Improvements

A summary of property, equipment and improvements is as follows at December 31:

	2013	**2012**
Laboratory equipment	**$ 2,626,806**	$ 2,815,302
Office furniture, computers and equipment	**166,647**	543,638
Software	**184,676**	155,637
Leasehold improvements	**771,430**	771,430
Subtotal	**3,749,559**	4,286,007
Less accumulated depreciation	**(2,896,440)**	(2,436,074)
Total property, equipment and improvements, net	**$ 853,119**	$ 1,849,933

Total depreciation expense for the years ended December 31, 2013 and 2012 amounted to $1,133,821 and $540,465, respectively, and is included on the combined statements of functional expenses. During the years ended December 31, 2013 and 2012, ISC disposed of $419,025 and $23,003, respectively, in fully depreciated property and equipment. ISC also sold certain property and equipment during the year ended December 31, 2013, as described in Note 11.

4. Temporarily Restricted Net Assets

ISC recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at December 31:

	2013	**2012**
Bind 10	**$ -**	

5. Deferred Revenue

Deferred revenue of $2,229,723 and $2,173,176 at December 31, 2013 and 2012, respectively, represents funds received under binding contracts in advance for future projects to be completed during the following fiscal year. Such amounts have been reflected as short-term liabilities and will be classified as earned revenue on the combined statements of activities and changes in net assets in the subsequent fiscal period after the services have been rendered.

6. Rent and Lease Commitments

Office Rent: ISC leases its corporate office space under a month-to-month operating agreement. ISC is responsible for its proportionate share of building, maintenance and operating expenses which includes property taxes, insurance, and utilities. The office lease stipulates a monthly rental payment of $3,507. Rent expense for the years ended December 31, 2013 and 2012 amounted to $42,080 and $42,208, respectively, and is included in "rent and utilities" on the combined statement of functional expenses.

Fiber Leases: ISC leases strands of dark fiber in portions along specific internet routes from a company under a ten year "Fiber Lease Agreement" beginning September 1, 2009 and running through August 31, 2019. ISC is obligated to remit $4,200 per month under this lease. ISC also leases strands of dark fiber in a point to point configuration from another company under a ten year "Leased Fiber Agreement" beginning December 27, 2006 and running through December 27, 2016. ISC is obligated to remit $6,100 per month under this lease.

Minimum annual payments on all operating leases extending beyond one year are as follows:

Year ending December 31, 2014	$ 123,600	Year ending December 31, 2015	$ 123,600
Year ending December 31, 2016	$ 123,600	Year ending December 31, 2017	$ 50,400
Year ending December 31, 2018	$ 50,400	Year ending December 31, 2019	$ 33,600

7. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future projects, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate ISC to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the ISC's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management and operating personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the combined financial statements.

8. Retirement Plan

ISC offers employees the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k). Under the Plan, employees can defer up to the maximum levels allowed by law. There are no matching employer contributions.

Notes to Combined Financial Statements

9. Selected Separate Financial Results

The following provides a summary of selected income and expense amounts:

	Internet Systems Consortium	Internet Systems Corporation	Totals
Earned revenue	$ 2,370,732	$ 5,924,143	$ 8,294,875
Contributed support	249,420	-	249,420
Total revenue and support	2,620,152	5,924,143	8,544,295
Bad debts	-	7,438	7,438
Bank charges and fees	4,195	8,856	13,051
Commissions	87,531	519,405	606,936
Conferences and Seminars	444	2,902	3,346
Connectivity and bandwidth	102,831	554,855	657,686
Cost of memberships	192,896	-	192,896
Cost of software support	2,961	331,583	334,544
Cost of software development	703,558	649,162	1,352,720
Cost of services /training/consulting	181,691	2,030,431	2,212,122
Cost of F Root	-	68,447	68,447
Cost of other services	46,996	205,885	252,881
Depreciation and amortization	1,133,821	-	1,133,821
Dues and subscriptions	5,058	11,242	16,300
Fundraising/promotion/development	143,608	107,858	251,466
Insurance	15,802	24,579	40,381
Interest and finance charges	47,115	-	47,115
Miscellaneous	13,759	24,355	38,114
Postage and shipping	4,968	5,652	10,620
Professional fees and outside services	900,763	497,555	1,398,318
Rent and utilities	49,651	274,458	324,109
Repairs and maintenance	38,768	78,235	117,003
Salaries, payroll taxes and benefits	2,054,836	416,466	2,471,302
Supplies and office	17,900	33,816	51,716
Telephone and telecommunications	18,740	26,614	45,354
Travel, meals and entertainment	94,659	185,132	279,791
	$ 5,862,551	$ 6,064,926	$ 11,927,477

10. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, . Under ASC 710.25, AHF is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Annual leave accruals are recorded in the financial statements as an accrued liability on the combined statements of financial position based on hourly rates in effect at the end of the fiscal year.

Notes to Combined Financial Statements

11. Gain on Sale of Assets

During the year ended December 31, 2013, ISC entered into two separate agreements to sell certain assets which included hardware, software, contracts, copyrights, goodwill, and other intangible assets. The combined contractual sales price from both agreements amounted to $3,500,000, with a net gain recognized on the sales of $3,095,735.

12. Subsequent Events

In compliance with ASC 855, [illegible], ISC has evaluated subsequent events through June 5, 2014, the date the combined financial statements were available to be issued, and, in the opinion of management, there are no subsequent events which need to be disclosed.