

Year End 2013 (unaudited) Financial Statements & Management Discussion

This report provides financial information for 2013. The complete financial statements included at the end of this report are the (1) Statement of Activities and (2) the Statement of Financial Position for the year. The accompanying Management Discussion presents key performance factors, accomplishments, and items of importance reflected in the Q4 and Year-to-Date financial reports (pre-audit). Note that financial comparisons are made to the 2013 Budget.

Although received in 2013, the \$10 million non-recurring contribution from PIR is not included in these figures. Those funds, although “unrestricted” for accounting purposes, remain subject to the direction of ISOC’s Board of Trustees.

Summary

ISOC’s 2013 Net Surplus of **\$391K** (before Interest and CEO Search costs) fell short of the Budget of \$978K. Also note that the Board approved an additional contribution to the Bali IGF (\$100K), which is included in the YTD Actual expense figures (within Public Policy). After adjusting for the additional IGF contribution, Net Surplus fell **\$588K** short of the Budget.

In summary, the variance in Net Surplus before Interest and CEO Search costs is due to

- ISOC Generated Revenues that are lower than the Budget (**\$748K** negative impact);
- lower PIR sale of 1-2 character domain names (\$762K negative impact);
- partially offset by lower programme expenses (**\$923K** positive impact shown in the financials, even after the additional \$100K IGF contribution).

ISOC Total Revenue is lower than Budget by 3.9% and Total Expenses finished lower than Budget by 2.4%.

Internet Society ISOC Statement of Activities Summary Year Ended December 31, 2013				
	Q4 Actual	YTD Actual	YTD Budget	YTD Variance
Unrestricted Revenues				
ISOC Generated (incl IETF)	\$ 3,194,338	\$ 8,201,746	\$ 8,949,400	\$ (747,654)
PIR Contribution to ISOC	7,000,000	28,000,000	28,000,000	-
Project 94 PIR sale of 1-2 character domains	130,200	237,514	1,000,000	(762,486)
PIR Restricted Funds (2010) Applied	347,330	1,000,000	1,000,000	-
Total Unrestricted Revenues	10,671,868	37,439,260	38,949,400	(1,510,140)
Expenses				
Subtotal Operations Group	5,810,453	16,807,835	17,117,643	309,808
Subtotal Strategic Group	4,229,270	13,620,922	14,198,461	577,539
Other Program Expenses*	87,319	1,303,243	1,380,000	76,757
IETF	1,529,487	5,316,472	5,274,858	(41,614)
Total Expenses	11,656,529	37,048,472	37,970,962	922,490
Net Surplus (Deficit) before Int & CEO Costs	(984,661)	390,788	978,438	(587,650)
Other Revenue (Expense)	281,043	(144,748)	500,000	(644,748)
CEO Search & Transition Costs	(190,685)	(290,669)	-	(290,669)
Net Unrestricted Surplus/(Deficit)	\$ (894,303)	\$ (44,629)	\$ 1,478,438	\$ (1,523,067)

*Includes NDSS, Global INET, Hall of Fame, Internet Advertising Award, Strategic Planning & Board Governance Expenses

After Investment and Currency Exchange losses (\$122K and \$22K respectively) and CEO Search Costs (\$291K), ISOC's Net Unrestricted **Deficit** was \$44.6K for the year.

Revenues

Major revenue categories are summarized below. In total, 2013 Revenues were \$37.4 million, or about 96% of the Budget of \$38.9 million. The variance relates to:

- Lower Membership revenue (including fewer new or upgraded Org Memberships, and a Platinum sponsorship that could not be recognized under accounting rules until 2014);
- Higher Grant revenue at nearly \$2.5 million, including revenue from a multi-year IXP Toolkit grant (\$427K), and an equipment grant for ISOC's ITE programme (\$931K).
- Programme Sponsorships not secured for several target events and programs; and
- Lower results from PIR's sale of 1-2 character domain names (\$762K negative impact).

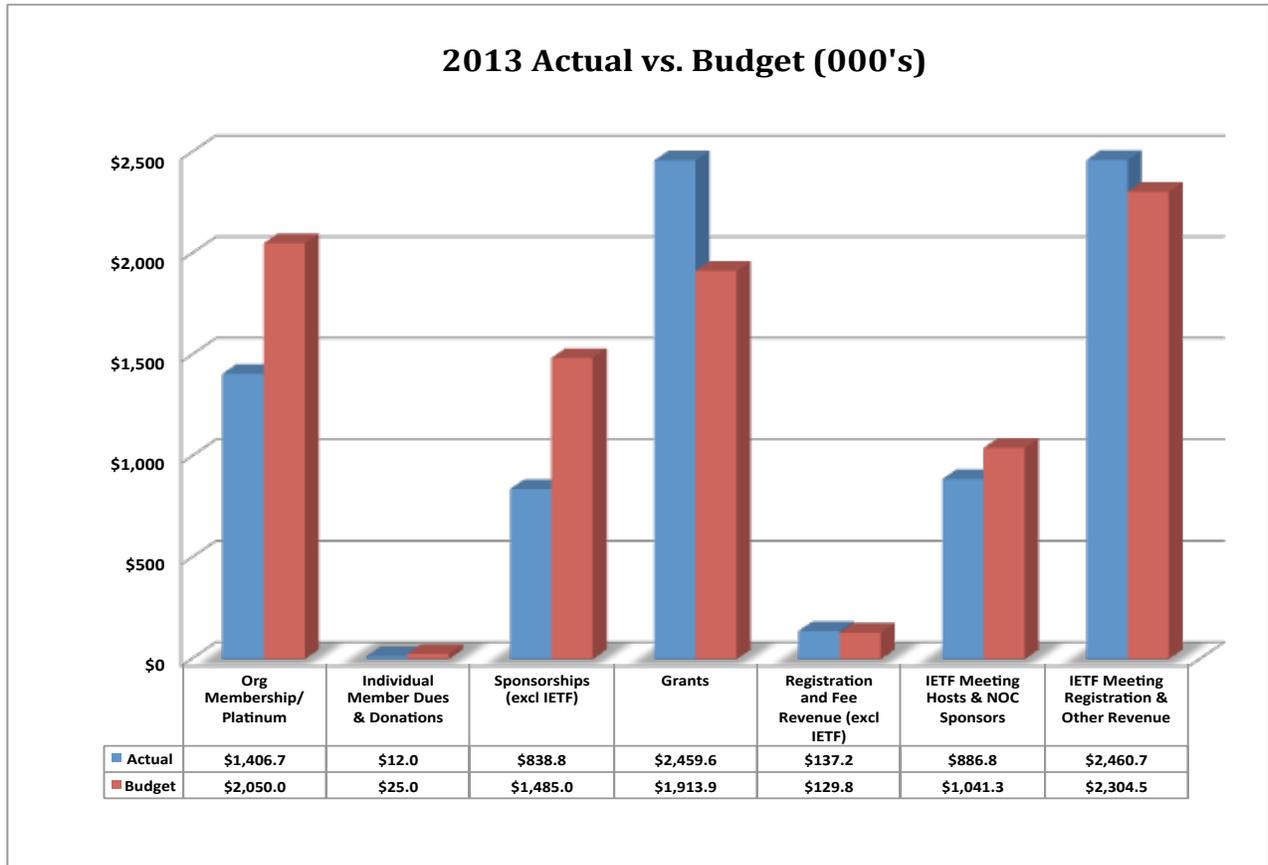
Internet Society				
Sources of Revenue - Unrestricted (000's)				
For The Year Ended December 31, 2013				
	Q4 Actual	YTD Actual	YTD Budget	YTD Var
Revenues				
Org Membership/Platinum Sponsorships	\$366.5	\$1,406.7	\$2,050.0	(\$643.3)
Individual Member Dues & Donations	5.0	12.0	25.0	(13.0)
Sponsorships (excl IETF)	77.8	838.8	1,485.0	(646.2)
Grants	1,572.2	2,459.6	1,913.9	545.7
Registration and Fee Revenue (excl IETF)	0.0	137.2	129.8	7.4
IETF Meeting Hosts & NOC Sponsors	343.6	886.8	1,041.3	(154.4)
IETF Meeting Registration & Other Revenue	829.1	2,460.7	2,304.5	156.2
Total ISOC-Generated Revenues	3,194.3	8,201.7	8,949.4	(747.7)
PIR Contribution to ISOC	7,000.0	28,000.0	28,000.0	0.0
Project 94 PIR sale of 1-2 character domains	130.2	237.5	1,000.0	(762.5)
PIR Restricted Funds Applied	347.3	1,000.0	1,000.0	0.0
Total Unrestricted Revenues	\$10,671.9	\$37,439.3	\$38,949.4	(\$1,510.1)

Of particular note:

- Organization Membership & Platinum Sponsorship revenues were budgeted to increase 32% in 2013. The 2013 revenues are lower than Budget by \$643.3K due largely to two members who delayed upgrading to platinum, and one multi-year Platinum sponsorship that could not be recognized until 2014 by accounting rules.
- YTD Sponsorship revenue was lower than Budget due to the relocation of Internet Hall of Fame (\$150K) and lower ION and Deploy 360 sponsorships (\$155K). The greatest shortfall in planned Sponsorships revenues (\$270K) was the result of delays in our economic studies, as we took most of the year to recruit a Chief Economist. These negative Sponsorship variances were partially offset by a successful INET in Bangkok that earned \$200K in sponsorships and a fully sponsored AfPif meeting.
- YTD Grant revenue was higher than Budget by \$546K. ISOC received a major multi-year grant for ITE equipment, for which we recognized \$931K in grant revenue, and recognized \$427K of the two-year (2013-2014) \$1.3 million IXP Toolkit grant.
- ISOC registration revenue was slightly higher than budget due to another successful NDSS symposium in February and higher than budgeted attendance for IETF meetings, partially offset by the absence of Internet Hall of Fame registration fees.

- IETF Sponsorship Revenue was lower than Budget by \$154K due to the absence of a full host for the IETF Berlin meeting and a Welcome Reception sponsor for the IETF Orlando meeting.

Graphically, 2013 Actual Revenue versus Budget is represented below.



Expenses

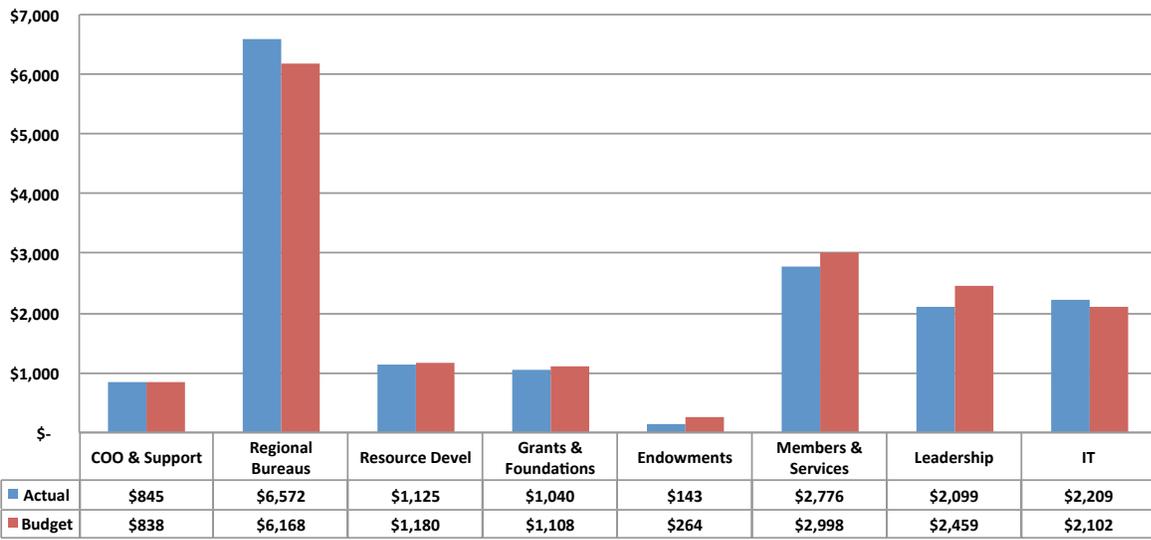
For reporting purposes, we present functional area expenses separated into “Operational Departments” (those areas under the COO); “Strategic Departments” (comprised of Technology groups, Public Policy, Strategic Development, and Communications); and “Other Program Expenses” (NDSS and Strategic Planning & Board Governance Retreat).

Total YTD expenses were 2.4% under Budget. Savings occurred largely in delays in personnel and programme expenditures in the second half of the year. Expenses would have been even lower but for the offsetting costs for the IXP Toolkit and ITE donations (approximately \$1.3 million).

Operational Group

The expenditures incurred by this group were 1.8% (\$310K) below Budget. Lower programme expenditures in Membership & Services and Leadership departments, as well as delays in the hiring of Regional personnel, make up the majority of the underspending. Regional Bureaus program expenditures were over the Budget by \$700K due to the cost recognition of unbudgeted in-kind equipment donated for the ITE program (\$931K -- note that in 2014, these types of expenses will be recorded separately as “fulfillment” expenses).

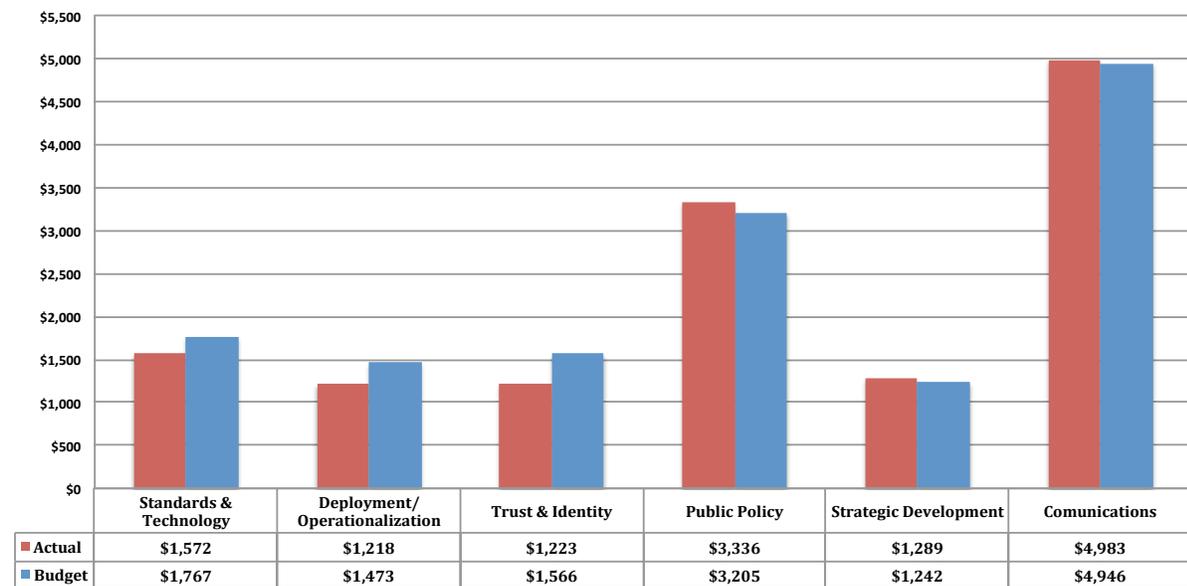
Operational Group Expenses 2013 Actual v. Budget (000's)



Strategic Group

YTD, this grouping had a 4% positive expense variance (\$578K) against budget. Much of the savings was attributable to lower programme spending for Standards & Technology, Trust & Identity, and DO (Deployment and Operationalization). Public Policy ended slightly over budget as it developed Anti-Spam workshops that were funded by others. Strategic Development was slightly over the Budget due to costs that were funded for the IXP Toolkit project (\$254K -- note that in 2014, these types of expenses will be recorded separately as "fulfillment" expenses). Communications was over budget \$44K as we undertook the unbudgeted ISOC History project.

Strategic Group Expenses 2013 Actual vs. Budget (000's)



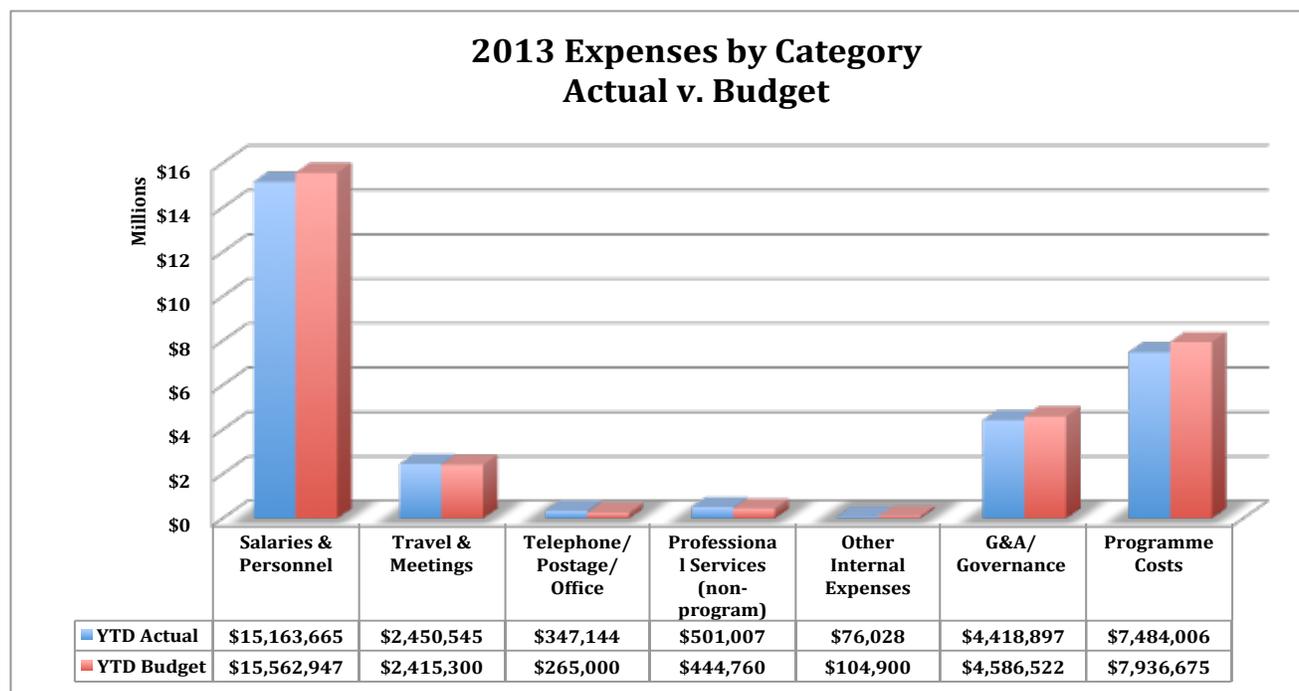
Other Programme Expenses

Overall, this group of program expenses were \$77K better than the Budget. These expenses represent the cost of the NDSS symposium, Internet Hall of Fame Event, Internet Advertising Award Expenses, and Strategic Planning and Board Governance work.

- The change in the Hall of Fame location contributed to a savings of \$69K and website Advertising Award Expenses were lower than budget by \$53K (both matched by reductions in associated revenue).
- NDSS expenses were over budget by \$27K due to the increased attendance (matched by increased registration revenue), and
- Strategic Planning and Board Governance costs were \$18K higher than Budgeted.

Expenses by Cost Category

The Internet Society also budgets and reviews operating expenses across the organization according to natural expense categories.



- Salaries and Personnel costs were lower (**\$398K**) than Budget, due to variances in foreign exchange rates and the timing of some hirings.
- Travel & Meeting costs year-to-date are slightly higher (**\$19K**) than Budget.
- Programme costs represent external costs of delivering on projects, and grants fulfilment activities. Year-to-date these costs are about 94% of the expected Budget (**\$470K** savings) despite the inclusion of \$931K in fulfilment costs for the ITE equipment donation received in 2013. The majority of the variance is in Membership & Services, Internet Leadership, Standards & Technology, DO, and Trust & Identity
- YTD General and Administrative expenses are 97% of the Budget (**\$152K** savings), including absorbing the cost of additional leased space in Reston that had been shared by PIR. G&A includes depreciation, office rent, legal, accounting, and Board governance costs. It also includes general personnel (CEO's office, Finance, HR, and Administrative).

Other Revenue (Expenses) – Interest, Currency Fluctuation & CEO Transition Costs

This area includes earnings (losses) on investments plus currency exchange gains (losses). Year-to-date, we have experienced negative results, predominantly due to losses on our fixed income investments in the first half of the year. Some recovery was made in the second half of the year. ISOC also incurred

\$291K in unbudgeted CEO transition costs, well within the allotment for this activity undertaken after the Budget was adopted.

IETF

IETF Sponsorship fell short of Budget by **\$154K** due to lack of a full host for IETF Berlin and Welcome Reception sponsor for IETF Orlando. IETF YTD Registration revenue was higher than budget due to greater than anticipated registrants for IETF Berlin and Vancouver, partially offset by a shortfall in attendance at the Orlando IETF.

IETF Expenses for the year were over budget by \$41K, largely due to unexpected VAT collection expense for IETF Berlin.

Restricted Funds – Statement of Activities

ISOC reports *two* Statements of Activities: one for Unrestricted Funds and one for Restricted Funds. For multi-year or purpose-designated funds, we only recognize Unrestricted Revenues once the funds have been used for their designated purpose. Until that time, those funds are added to a separate accounting for Restricted Funds.

The Beginning 2013 Restricted Fund Balance of \$2.87 million included \$1.4 million of PIR’s original \$2.0 million contribution in 2010 in support of IETF outreach, the IXP Toolkit grant of \$1.3 million received in late 2012, plus the remainder of a 3-year sponsorship for Leadership programmes.

During 2014, we added to the restricted funds **\$132K** for LAC-IL grant, \$200K for a multi-year (2014 & 2015) Platinum Contribution commitment, \$20K for a 2014 SPAM workshop contribution, as well as a \$15K Abha Ahuja fellowship. We released from restriction \$1.0 million of the IETF outreach funds, \$427 of the IXP Toolkit grant, **\$132K** for LAC-IL grant, as well as, the final \$91K of the multi-year partnership funding for the Leadership program.

Internet Society			
Statement of Activities - RESTRICTED			
For the Year Ended December 31, 2013			
	YTD Actual	YTD Budget	YTD \$ Variance
Restricted Funds Received			
Funds Received for Future Programme Use	\$ 366,967	\$ -	\$ 366,967
Total Restricted Revenues	366,967	-	366,967
Funds Used for Directed Purposes			
IETF Outreach	1,000,000	1,000,000	-
Other Grants and Sponsorships	650,252	150,000	(500,252)
Total Funds Used for Directed Purposes	1,650,252	1,150,000	(500,252)
NET CHANGE IN RESTRICTED FUNDS	\$ (1,283,285)	\$ (1,150,000)	\$ (133,285)
BEGINNING RESTRICTED FUND BALANCE	\$ 2,872,633	\$ 1,710,000	\$ 1,162,633
ENDING RESTRICTED FUND BALANCE	\$ 1,589,348	\$ 560,000	\$ 1,029,348

Cash and Investments

At year-end, ISOC held \$13.6 Continuity Funds, \$1.6 temporarily restricted funds and \$75K in permanently restricted Open Internet Endowment funds. Also in ISOC year-end cash balance was the non-recurring \$10 million from PIR. By accounting standards, these are not considered “restricted” funds. However, for clarity we do not show these as revenue in ISOC’s internal financial reports, but keep them separate as “Board designated” funds (also see the increase in Cash). Operational funds comprise the remainder of our cash balance.

Detailed Financial Statements follow:

Statement of Activities - Unrestricted
Q4 YTD and Full-Year Actual

	Q4 Actual	YTD Actual	YTD Bdgt	YTD \$ Var
Unrestricted ISOC Revenues				
Memberships and Platinum Sponsorships				
Org Membership/Platinum Sponsorships	\$ 366,542	\$ 1,406,701	\$ 2,050,000	\$ (643,299)
Individual Member Dues & Donations	4,991	11,968	25,000	(13,032)
Memberships and Platinum Sponsorships	371,533	1,418,669	2,075,000	(656,331)
Sponsorships				
Regional INET & Business Roundtable Sponsors	23,404	244,055	240,000	4,055
AFPIF	-	111,367	100,000	11,367
ION Sponsorships	10,000	10,000	40,000	(30,000)
NDSS Sponsorships	-	31,000	40,000	(9,000)
Global INET and Hall of Fame	-	50,000	200,000	(150,000)
Other Sponsorable Programs	44,438	392,362	865,000	(472,638)
IETF Sponsorships	343,590	886,840	1,041,250	(154,410)
Sponsorships	421,432	1,725,624	2,526,250	(800,626)
Grants				
Major Grants				
ITE Programmes (including AU AXIS)	90,359	293,903	561,000	(267,097)
Latin America Program	54,693	132,087	502,900	(370,813)
Google IXP	277,200	427,572	-	427,572
Marketing Grants and Awards	78,230	427,254	480,000	(52,746)
IT Equipment Donation	931,731	931,731	-	931,731
Other Grants & Awards	140,035	247,035	370,000	(122,965)
Grants	1,572,248	2,459,582	1,913,900	545,682
Registration and Fee Revenue				
Hall of Fame & Global INET Registrations	-	-	24,750	(24,750)
NDSS Registrations	-	135,610	95,000	40,610
Other Registrations	-	1,549	10,000	(8,451)
IETF Meeting Registration & Other Revenues	829,125	2,460,712	2,304,500	156,212
Registration and Fee Revenue	829,125	2,597,871	2,434,250	163,621
PIR Contribution to ISOC	7,000,000	28,000,000	28,000,000	-
Project 94 PIR sale of 1-2 charact domains	130,200	237,514	1,000,000	(762,486)
PIR Restr Funds Applied for Unrestricted Use	347,330	1,000,000	1,000,000	-
Total Unrestricted ISOC Revenues	10,671,868	37,439,260	38,949,400	(1,510,140)
Department & Program Exp (excl IETF)				
Departmental Expenses				
Operations Group				
COO & Support Functions	217,535	844,500	837,626	(6,874)
Regional Bureaus	2,725,361	6,571,741	6,168,266	(403,475)
Resource Development	336,971	1,124,741	1,180,208	55,467
Grants & Foundation Development	311,506	1,039,847	1,108,223	68,376
Endowments	39,521	143,491	264,320	120,829
Members & Services	813,934	2,775,500	2,998,353	222,853
Leadership	777,441	2,098,772	2,458,659	359,887
Information Technology	588,184	2,209,243	2,101,988	(107,255)
Total Operations Group	5,810,453	16,807,835	17,117,643	309,808
Strategic Group				
Standards & Technology	507,753	1,571,760	1,767,075	195,315
Deployment Operationalization	360,558	1,218,137	1,473,304	255,167
Trust & Identity	466,897	1,222,527	1,565,550	343,023
Public Policy	1,005,666	3,336,199	3,204,682	(131,517)
Strategic Development	550,992	1,289,445	1,242,323	(47,122)
Communications	1,337,404	4,982,854	4,945,527	(37,327)
Total Strategic Group	4,229,270	13,620,922	14,198,461	577,539
Total Departmental Expenses	10,039,723	30,428,757	31,316,104	887,347
Other Program Expenses				
NDSS	50	117,244	90,000	(27,244)
Global INET/Hall of Fame Event	7,183	141,209	210,000	68,791
Internet Advertising Award Expenditures	78,230	427,254	480,000	52,746
G&A Reserve	-	-	-	-
Strategic Planning and Board Governance	1,856	617,536	600,000	(17,536)
Total Other Program Expenses	87,319	1,303,243	1,380,000	76,757
Total ISOC Department & Program Exp	10,127,042	31,732,000	32,696,104	964,104
IETF Expenses(excluding Capital)	1,529,487	5,316,472	5,274,858	(41,614)
Net Surplus (Deficit) Before Interest	(984,661)	390,788	978,438	(587,650)
Other Revenue (Expense)	281,043	(144,748)	500,000	(644,748)
CEO Search and Transition Costs	(190,685)	(290,669)	-	(290,669)
NET UNRESTRICTED SURPLUS/(DEFICIT)	\$ (894,303)	\$ (44,629)	\$ 1,478,438	\$(1,523,067)

INTERNET SOCIETY
Statement of Financial Position
December 31, 2013

ASSETS	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Current		
Cash & Cash Equivalents (incl Restricted Funds)	\$ 27,319,805	\$ 18,127,083
Accounts Receivable	1,270,698	652,324
Prepaid Expenses	1,052,499	546,690
Total Current	<u>29,643,002</u>	<u>19,326,097</u>
Long Term		
Furniture, Equipment, Leasholds (Net)	2,882,211	2,210,266
Total Long Term	<u>2,882,211</u>	<u>2,210,266</u>
Other Assets		
Deposits	29,460	165,307
Total Other Assets	<u>29,460</u>	<u>165,307</u>
TOTAL ASSETS	<u>\$ 32,554,673</u>	<u>\$ 21,701,670</u>
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 2,277,188	\$ 1,209,877
Accrued Employee Benefits	1,817,224	1,632,412
Deferred Rent	219,244	228,671
Deferred Construction Allowance	1,124,977	633,629
Security Deposit Payable	4,035	4,035
Deferred Revenue	1,159,016	680,264
Total Current Liabilities	<u>6,601,684</u>	<u>4,388,888</u>
NET ASSETS		
Unrestricted Fund Balance	24,288,908	14,333,541
Restricted Fund Balance	1,589,348	2,872,633
Permanently Restricted Fund Balance	74,733	25,608
Total Net Assets	<u>25,952,989</u>	<u>17,231,782</u>
Total LIABILITIES & NET ASSETS	<u>\$ 32,554,673</u>	<u>\$ 21,620,670</u>
BEGINNING NET ASSET BALANCE - 1 January	\$17,231,782	\$15,918,553
NET CHANGE IN NET ASSETS (Unrestricted/Restricted)	8,721,207	1,313,229
ENDING NET ASSET BALANCE	<u>\$25,952,989</u>	<u>\$17,231,782</u>