

First Quarter 2012 Financial Statements & Management Discussion


This report provides financial information for the first quarter 2012, including a comparison to the year-to-date 2012 Budget. The complete financial statements included at the end of this report are the Statement of Activities and the Statement of Financial Position.

The following Management Discussion presents key performance factors, accomplishments, and items of importance reflected in the Q1 financial reports.

Revenues

Major revenue categories are summarized below by principle target area. Also see the Statement of Activities at the end of this report for more detailed information within these categories.

In total, the Q1 Revenues were \$8.6 million, slightly higher than the Budget of \$8.3 million. Although the Q1 targets were generally met, the Revenue Budget for Q1 for several revenue categories is proportionately lower than the next three quarters. The quarterly budgets recognize that we had a modest pipeline in categories such as Sponsorships and Grants, and depend on aggressive resource development and grant application activity during the year to meet our annual budget targets.

<div style="text-align: center;"> Internet Society Sources of Revenue - Unrestricted For The Quarter Ended March 31, 2012 </div> <div style="text-align: right;">  </div>				
	YTD Actual	YTD Budget	YTD Variance	Annual Budget
Revenues				
Org Membership/Platinum Sponsorships	\$ 419,190	\$ 320,000	\$ 99,190	\$ 1,700,000
Individual Member Dues & Donations	5,000	6,000	(1,000)	90,000
Sponsorships and Grants (excl IETF)	96,795	104,795	(8,000)	2,010,000
Registration and Fee Revenue (excl IETF)	122,421	80,000	42,421	390,000
IETF Meeting Hosts & NOC Sponsors	463,793	436,000	27,793	966,000
IETF Meeting Registration & Other Revenue	872,856	775,500	97,356	2,297,250
PIR Contribution to ISOC	6,625,000	6,625,000	-	26,500,000
PIR Restricted Funds Applied for Unrestricted Use	-	-	-	1,000,000
Total Unrestricted Revenues	8,605,055	8,347,295	257,760	34,953,250

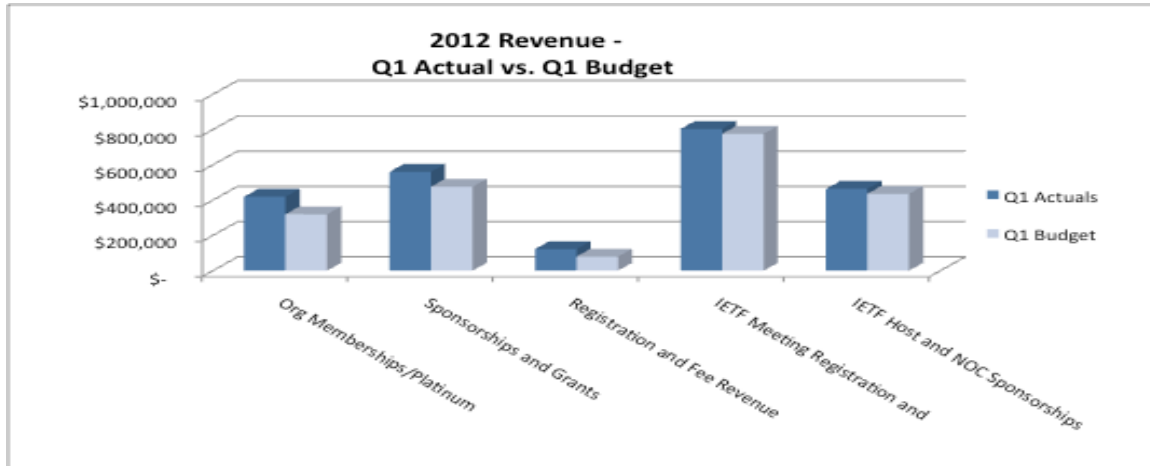
Organization Membership & Platinum Sponsor revenues are above the budget for the quarter, highlighted by the receipt of three renewing Platinum sponsorships. The Resource Development team is having success implementing the 'New Sectors' campaign (approaching new industry sectors such as the Mobile Phone, Telecom and Computer Gaming industries) and has more resources after the recruitment of a new Senior Manager based in Reston. Increased engagement with the Regional Directors is also bearing fruit. All of this is important if we are to achieve the \$1.7 million budget for 2012 (a 29% increase over 2011).

Individual Memberships and Donations for the quarter were nearly half of the revenue earned in this category for all of 2011. However, we recognize that the Budget for Q1 Individual Membership/Donations revenues is only 6% of the full 2012 budget. The 2012 Individual Membership/Donations target is important and will continue to represent a stretch target for our Membership and Services Department.

Sponsorship Revenue includes \$65k from a multi-year partnership with SIDN to support the Internet Leaders program, as well as \$32k from NDSS sponsors. The first quarter is typically light in sponsorship revenue recognition, and the budget for Q1 reflects that trend. Revenues for the Global INET and AfPIF events will be recognized in the second quarter, along with other grants awarded ISOC in 2011. ISOC is also a finalist for a \$650,000 grant to provide training courses in Africa in 2012 and 2013. The 2012 Sponsorship Revenue budget (\$2,010K including the Global INET) represents a sizable increase from level of sponsorship revenue achieved in 2011 (\$572K), and we are working aggressively to meet the budget.

IETF Sponsorship Revenue for Q1 relates to IETF-Paris in March. During the budget process, we anticipated that this meeting might not be fully sponsored. To be conservative, ISOC and the IAOC reduced the revenue budget for the quarter by 25%. Hosts were ultimately secured, and IETF registrations exceeded attendee expectations.

Registration Revenue (non-IETF) relates to the 2012 NDSS symposium, held in February (\$122k actual v. \$80k budget). Once again, the symposium attendance grew year-over-year, with 198 paid registrations.



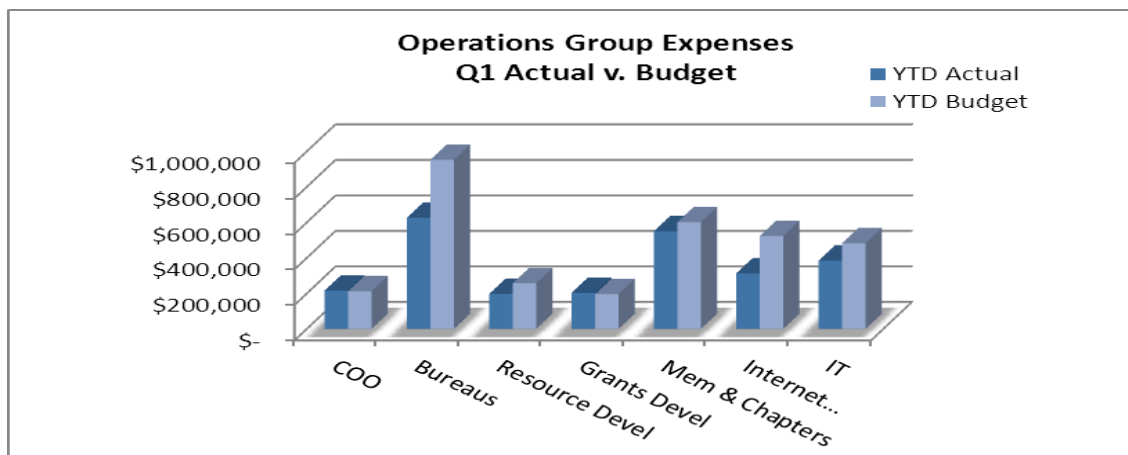
Expenses

For reporting purposes, we present functional area expenses separated into “Operational Departments” (those areas under the COO); “Strategic Departments” (comprised of technology groups, policy group, strategic development, and communications); and “Other Program Expenses” (NDSS).

Total ISOC expenses for the first quarter were lower than the budget due to several unfilled staff positions, and timing variances for some programme spending. We continue to pursue a handful of targeted positions within the 2012 budget including senior level positions in Resource Development, IT, and Global Services (regional management) .

Operations Group

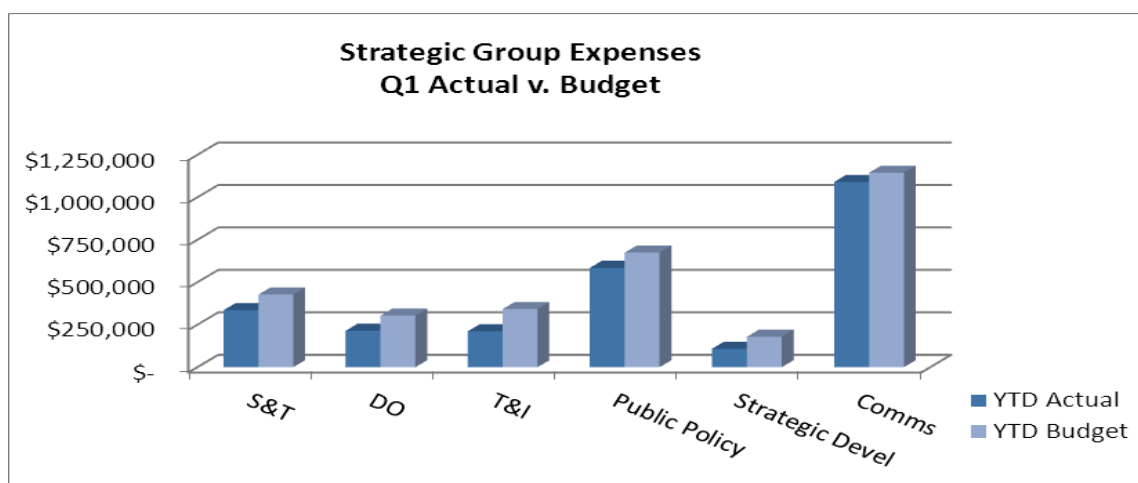
The expenditures incurred by this group for the first quarter of the year were 23% (\$734K) below budget. This savings generally relates to the above-mentioned open positions and to the timing of programme expenditures, largely in the Internet Society’s Regional Bureau programmes and the Next Generation Leaders programme led by the Internet Leadership team. Programme expenditures in these areas will accelerate in the second and third quarters.



Strategic Group

Each department within this grouping had a positive expense variance for Q1, for a total year-to-date savings of \$527K. Most of this variance is in programme spending, the majority of which is considered timing in nature.

In particular, S&T programme expenditures were under budget for the quarter, as a Security roundtable was moved to Q2, and promotional materials for the upcoming IPv6 week were not needed. The DO (Deployment and Operationalization) group continued to develop Deploy360 programme materials through staff, but will aggressively expand content creation and translate materials in the coming quarters.



Other Program Expenses

These expenses represent the NDSS symposium costs, a self-funded event. NDSS Expenses are the external costs related to this symposium, and were slightly over budget due to the increased attendance.

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 for the first quarter are 88% of the Budget for that period (\$402K savings). This is due to several open positions including Senior Directors in Resource Development, IT, and Global Services.

- Travel & Meeting costs year-to-date are 81% of Budget (\$86K savings). This is largely a timing difference, as some travel reporting lags behind the date of expenditure.
- Programme costs year-to-date are just over half of the Budget for Q1 (\$656K savings). The majority of this variance is from Regional Bureaus and Leadership Programs, and is considered a timing difference for programmes in these areas.
- General and Administrative expenses are 94% of the Budget for the first quarter (\$63K savings). G&A includes such items as 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 and Currency Fluctuation

Other Revenues (earnings on investments plus currency exchange gains) have well exceeded the targets for the quarter due to positive returns on our investments (\$265K or nearly an 8% annualized return on invested funds) and slightly positive results from currency exchange rates on the modest amount of Swiss francs we hold (\$13K).

IETF

Attendance at the Paris IETF meeting exceeded the attendance budget (1,312 vs. 1,165), and the mix of fees (late fees, etc) created a surplus attendance revenue of \$28k. Overall sponsorship revenue for the Paris IETF meeting exceeded the budget by \$28k.

Internet Society IETF Statement of Activities For the Quarter Ended March 31, 2012				
IETF Summary of Results	YTD Actual	YTD Budget	YTD Variance	Annual Budget
IETF Revenues	\$ 1,336,649	\$ 1,211,500	\$ 125,149	\$ 3,263,250
IETF Expenses	(1,590,171)	(1,754,489)	164,318	(5,409,600)
IETF Capital Expenditures	(42,627)	(36,000)	(6,627)	(215,000)
ISOC's Contribution to the IETF	\$ (296,149)	\$ (578,989)	\$ 282,840	\$ (2,361,350)

IETF Expenses for the quarter were under the budget, largely due to lower RFC Editor costs and lower than projected NOC costs including circuit costs for the Paris meeting.

Restricted Funds – Statement of Activities

Note that ISOC reports *two* Statements of Activities: one for Unrestricted Funds and one for Restricted Funds. Prior to 2011, ISOC received very little in Restricted Funds, and those funds were generally used within the same fiscal year. With the receipt of directed funds from PIR at the end of 2010, plus our increasing pursuit of multi-year grants and purpose directed programme sponsorships, ISOC must follow accounting standards for revenue recognition relating to these "Restricted Funds".

For these multi-year or purpose designated funds, we only recognize Unrestricted Revenues once the funds have been used for their designated purpose.

The Restricted Statement of Activities (below) reflects PIR's \$2 million contribution received in 2010 in support of IETF functions. It also reflects both the receipt and use of other restricted funds.

In the first quarter, we released \$64,795 of the SIDN multi-year partnership from Restriction, as that grant was used to fund the Internet Leadership program. No expenses were incurred for the grant for work in Latin America, which is another multi-year direct funded programme.

Internet Society			
Statement of Activities - RESTRICTED			
For the Quarter Ended March 31, 2012			
	Actual	Budget	\$ Variance
Restricted Funds Received			
Funds Received for Future Programme Use	\$ -	\$ -	\$ -
Total Restricted Revenues	-	-	-
Funds Used for Directed Purposes			
IETF Outreach	-	-	-
Dr. Jun-Ichiro Hagino	-	-	-
Postel Award	-	-	-
Other Grants and Sponsorships	64,795	64,795	-
Total Funds Used for Directed Purposes	64,795	64,795	-
NET CHANGE IN RESTRICTED FUNDS	\$ (64,795)	\$ (64,795)	\$ -
BEGINNING RESTRICTED FUND BALANCE	\$ 2,210,000	\$ 2,259,718	\$ (49,718)
ENDING RESTRICTED FUND BALANCE	\$ 2,145,205	\$ 2,194,923	\$ (49,718)

Cash and Investments

ISOC continues to maintain a healthy cash and investment position, with a total base of \$16.7 million. Of this amount, \$13.3 million is invested with Morgan Stanley, with the remainder held for operational needs. Restricted funds are included in these figures. (The target for Strategic Surplus is \$11.4 million).

Financial Summary

For the first quarter of 2012, we are focused on targets expressed in the Key Focus Areas in the Business Plan, delivering on the 20th Anniversary and Global INET activities, and building revenue opportunities.

The first quarter results show a positive \$1,844K Surplus compared to budget, originating from many individual areas discussed above:

- Revenues (excl IETF) \$ 133K
- IETF Revenues 125K
- IETF Expenses 164K
- ISOC Internal Costs (Salaries, Travel, and G&A) 588K
- ISOC Programme Costs (notably Regions and Leadership) 656K
- Interest Income and Currency Expense 178K

While we are well within our 2012 Year-to-Date Budget after Q1, we have stretch goals for the full year in our programme areas and in our delivery of ISOC-generated revenues. We are pleased with our progress in Q1, but are focused on the goals we have set for ourselves for the year.

Internet Society
Statement of Activities - Unrestricted
For the Quarter Ended March 31, 2012



	Actual	Budget	\$ Variance	% Variance	Annual Budget
Revenues					
Memberships and Platinum Sponsorships					
Org Membership/Platinum Sponsorships	\$ 419,190	\$ 320,000	\$ 99,190	31.00%	\$ 1,700,000
Individual Member Dues & Donations	5,000	6,000	(1,000)	-16.67%	90,000
Memberships and Platinum Sponsorships	424,190	326,000	98,190	30.12%	1,790,000
Sponsorships and Grants (including IETF)					
Programme Grants & Sponsorships					
ITE Programmes					450,000
Other Programmes					300,000
INET Sponsorships	-	-	-		600,000
DO Hub Sponsorships	-	-	-		210,000
ION Sponsorships	-	-	-		20,000
NDSS Sponsorships	32,000	40,000	(8,000)	-20.00%	40,000
Internet Leadership (NGL, Fellowships, Ambassadorships)	64,795	64,795	-		390,000
IETF Sponsorships (incl new sponsorship opportunities)	463,793	436,000	27,793	6.37%	966,000
Sponsorships and Grants (including IETF)	560,588	540,795	19,793	3.66%	2,976,000
Registration and Fee Revenue					
20th Anniversary Gala & Global INET Registrations	-	-	-		310,000
NDSS Registrations	122,421	80,000	42,421	53.03%	80,000
IETF Meeting Registration & Other Revenues	872,856	775,500	97,356	12.55%	2,297,250
Registration and Fee Revenue	995,277	855,500	139,777	16.34%	2,687,250
PIR Contribution to ISOC	6,625,000	6,625,000	-	0.00%	26,500,000
PIR Restricted Funds Applied for Unrestricted Use	-	-	-		1,000,000
Total Unrestricted Revenues	8,605,055	8,347,295	257,760	3.09%	34,953,250
Department & Program Exp (excl IETF)					
Departmental Expenses					
Operations Group					
COO & Support Functions	215,597	211,620	(3,977)	-1.88%	949,990
Regional Bureaus	626,142	952,282	326,140	34.25%	4,923,402
Resource Development	196,846	256,932	60,086	23.39%	1,168,943
Grants & Foundation Development	203,042	195,233	(7,809)	-4.00%	834,072
Members & Services	550,069	600,833	50,764	8.45%	3,112,059
Internet Leadership	312,726	523,138	210,412	40.22%	2,156,997
Information Technology	384,333	482,985	98,652	20.43%	2,142,088
Total Operations Group	2,488,755	3,223,023	734,268	22.78%	15,287,550
Strategic Group					
Standards & Technology	335,410	427,726	92,316	21.58%	1,790,632
Deployment Operationalization	214,631	303,934	89,303	29.38%	1,483,140
Trust & Identity	211,602	342,481	130,879	38.21%	1,409,688
Public Policy	585,006	674,580	89,574	13.28%	3,013,452
Strategic Development	108,707	179,322	70,615	39.38%	865,968
Communications	1,090,797	1,145,077	54,280	4.74%	5,264,128
Total Strategic Group	2,546,153	3,073,120	526,967	17.15%	13,827,008
Total Departmental Expenses	5,034,908	6,296,143	1,261,235	20.03%	29,114,558
Other Program Expenses					
NDSS & Postel Award	96,772	80,000	(16,772)	-20.97%	80,000
Total Other Program Expenses	5,131,680	6,376,143	1,244,463	19.52%	80,000
Total ISOC Department & Program Exp	5,131,680	6,376,143	1,244,463	19.52%	29,194,558
IETF Expenses (excluding Capital)	1,590,171	1,754,489	164,318	9.37%	5,409,600
Other Revenue (Expense)	277,680	100,000	177,680	177.68%	400,000
NET UNRESTRICTED SURPLUS/(DEFICIT)	\$ 2,160,884	\$ 316,663	\$ 1,844,221	582.39%	\$ 749,092

INTERNET SOCIETY
Statement of Financial Position
March 31, 2012

ASSETS	March 31, 2012	March 31, 2011
Current		
Cash & Cash Equivalents (incl Restricted Funds)	\$ 16,650,231	\$ 15,086,584
Accounts Receivable	714,211	394,994
Prepaid Expenses	1,276,331	477,545
Total Current	18,640,773	15,959,123
Long Term		
Furniture, Equipment, Leasholds (Net)	2,410,427	2,228,907
Total Long Term	2,410,427	2,228,907
Other Assets		
Deposits	154,460	142,133
Total Other Assets	154,460	142,133
TOTAL ASSETS	\$ 21,205,660	\$ 18,330,163
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 823,611	\$ 902,063
Accrued Employee Benefits	728,739	532,852
Deferred Rent	205,276	152,203
Deferred Construction Allowance	724,147	546,792
Security Deposit Payable	4,035	4,035
Deferred Revenue	705,208	340,966
Total Current Liabilities	3,191,016	2,478,911
NET ASSETS		
Unrestricted Fund Balance	15,869,439	13,690,449
Restricted Fund Balance	2,145,205	2,160,803
Total Net Assets	18,014,644	15,851,252
Total LIABILITIES & NET ASSETS	\$ 21,205,660	\$ 18,330,163
BEGINNING NET ASSET BALANCE - 1 January	\$15,918,553	13,313,520
NET CHANGE IN NET ASSETS (Unrestricted/Restricted)	2,096,091	2,537,732
ENDING NET ASSET BALANCE	\$18,014,644	\$15,851,252

Internet Society
Internet Leadership (IL)
Statement of Programme Activities
For the Quarter Ended March 31, 2012

Internet Leadership continues to be a key investment area for the Internet Society. While 2011 was about achieving organizational integration of a range of leadership activities, the emphasis in 2012 is to scale and amplify programmes and activities by (1) building and sustaining leadership capacity to advance the Internet worldwide and (2) accelerating the broader community's understanding of its stake and role in the future of the Internet.

Q1 Programme activities to scale ISOC's leadership capacity building included:

- Refinement of the elearning curriculum and also translation of the curriculum to Spanish, allowing the Internet Society to offer the elearning in four concurrent classes – 2 in English, 1 French, and 1 Spanish, that will expand the total number of students reached by elearning to 100 students, double last year's total
- Collaboration with a chapter in Latin America to deliver the first country-specific programme that leverages the elearning curriculum and experiential opportunities. Specific efforts in Q1 included identifying ways to promote IETF to academic institutions, have garnering five solid candidates for IETF84 in Vancouver.
- Preparation for a Leadership Community Roundtable as a pre-Global INET activity to convene for the first-time 19 former NGL participants to discuss desired local and regional outcomes and ways ISOC might support those efforts
- Development of a Collaborative Leadership Exchange, also as a pre-INET activity, to engage voices and foster deeper connections leading into the INET itself

Programmatic expenses are on track for the year, with some variance in Q1 due primarily to some longer contract negotiations and Q1 expenses that will not be recognized until Q2, plus turnover in one position recently filled.

Internet Society Internet Leadership Statement of Activities For the Quarter Ended March 31, 2012				
	YTD Actual	YTD Budget	YTD Variance	Annual Budget
Revenue				
NGL, Fellowships, Ambassadorships Sponsorships	\$ 64,795	\$ 64,795	\$ -	\$ 390,000
Expenses				
Internal Expenses	\$ 280,182	\$ 319,333	\$ 39,151	\$ 1,341,797
Next Generation Leaders	-	90,675	90,675	362,700
Latin America Initiative	-	20,751	20,751	83,000
Core Outreach	3,345	49,626	46,281	198,500
IETF Activities	29,199	40,851	11,652	163,400
Postal Operators Award	-	951	951	3,800
Abha Ahuja Award	-	951	951	3,800
Total Expenses	\$ 312,726	\$ 523,138	\$ 210,412	\$ 2,156,997
Internet Leadership, net	\$ (247,931)	\$ (458,343)	\$ 210,412	\$ (1,766,997)

Internet Society
Deployment and Operationalization (DO)
Statement of Activities
For the Quarter Ended March 31, 2012

Deployment and Operationalization (DO)

The DO team began the quarter with the launch of the Deploy360 Programme. This programme's focus is to assist industry with the deployment of new standards and technologies. Initial standards topics covered are IPv6 and DNSSEC. Pillar activities of the programme include the web portal, social media engagement, ION conferences, and speaking engagements.

The web portal can be viewed at <http://www.internetsociety.org/deploy360/>

In terms of the activity's work, as is visible in the Deploy360 online resource, we have established a solid body of materials for both IPv6 and DNSSEC deployment. We have preparations underway for a standalone ION meeting, as well as 3 mini-IONs in the second half of 2012 -- co-locating with Interop-Mumbai, the Slovenian IPv6 Summit and LISA 2012.

The web presence for this programme accounts for approximately 10 percent of the sustained traffic to the [internetsociety.org](http://www.internetsociety.org) domain. When new content and/or blog entries are posted and promoted, the programme site's percentage of overall traffic to the main company domain has spiked to as much as 50+ percent.

Working with followers of this deployment initiative at ION conferences, speaking engagements, over social media, and the web presence, the DO team compiled a needs assessment of deployment related material in Q1. The team will publish these needs assessments as content roadmaps to the Deploy360 Programme site in Q2. The team will use this resource to accelerate engagement with the community and rapidly expand new deployment related content.

We have also worked with the Resource Development team to help them develop a robust plan for Deploy360-related revenue in 2012, as part of ISOC's overall membership expansion programme. We have identified key target industries as well as specific organizations for which the Deploy360 activity would be of interest -- as consumers of/contributors to the material, as well as possible financial contributions to ISOC. With the Deploy360 resource now online and gaining viewership, and added personnel in the Resources department, the revenue plan will be a focus now that the Global INET's demands are behind us.

Internet Society Deployment & Operationalization Statement of Activities For the Quarter Ended March 31, 2012				
	<u>YTD Actual</u>	<u>YTD Budget</u>	<u>YTD Variance</u>	<u>Annual Budget</u>
Revenue				
DoHub Sponsorships	\$ -	\$ -	-	\$ 210,000
ION Sponsorships	-	-	-	20,000
Total DO Revenue	-	-	-	230,000
Expenses				
Internal Expenses	\$ 213,618	\$ 253,934	\$ 40,316	\$ 1,093,140
Portal Development Expenses	-	10,000	10,000	50,000
Content creation expenses	-	20,000	20,000	100,000
Content translation expenses	-	10,000	10,000	50,000
Internet ON (ION) Event Expenses	-	-	-	20,000
Internet ON (ION) invited speaker travel	-	-	-	140,000
Promotional Expenses	1,013	10,000	8,987	30,000
Total Expenses	\$ 214,631	\$ 303,934	\$ 89,303	\$ 1,483,140
Deployment & Operational Hub, net	\$ (214,631)	\$ (303,934)	\$ (89,303)	\$ (1,253,140)

