

Third Quarter 2012 Financial Statements & Management Discussion

This report provides financial information for the third quarter and the first nine months of 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 Q3 financial reports. Where possible, we have updated the forecast presented as part of the 2013 Business Plan (which was based on August actuals and published about four weeks ago).

Revenues

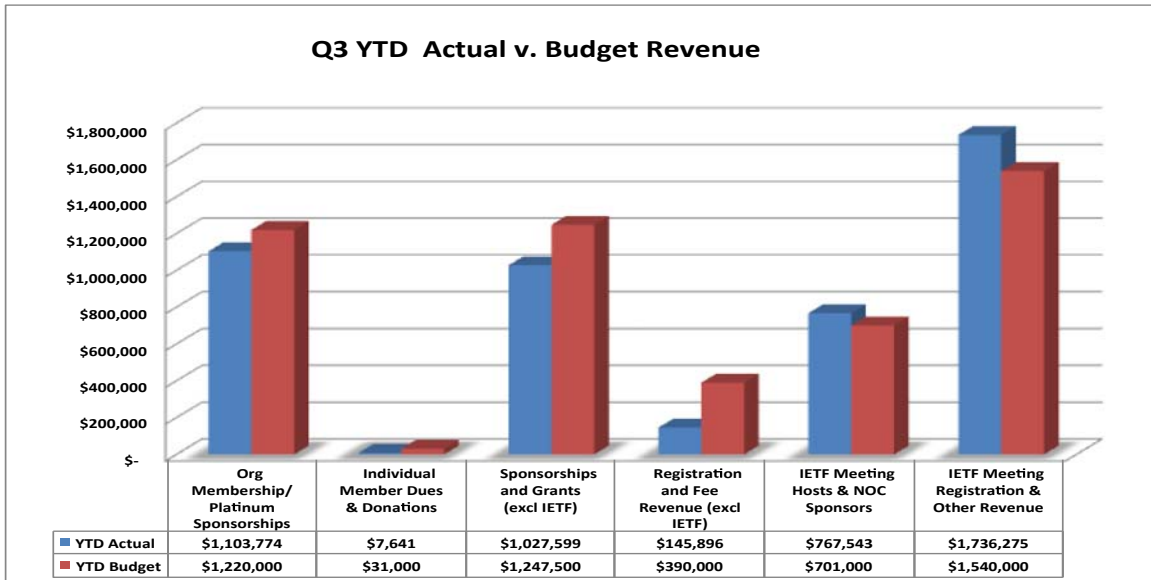
Major revenue categories are summarized below by principle target area. Also see the Statement of Activities at the end of this report for more detailed information within these revenue categories.

In total, year-to-date Revenues are \$24.9 million, slightly under the YTD Budget of \$25.8 million. Much of this variance relates to the Global INET registration fee shortfall.

For the year, with three-quarters reported, the annual forecast reflects a continued conservative forecast for Org Membership revenue for the year. However, the expected Q4 revenues (resulting in a year-to-year 10% growth in Org Membership revenue for 2012) establishes the base for 2013 Membership revenue. We have revised downward the forecast for individual dues and donations, as the Campus Party campaign has gained members, but lower contributions than expected.

Internet Society Sources of Revenue - Unrestricted For The Nine Months Ended September 30, 2012							
	Q3 Actual	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	
Revenues							
Org Membership/Platinum Sponsorships	\$ 303,850	\$ 1,103,774	\$ 1,220,000	\$ (116,226)	\$ 1,450,000	\$ 1,700,000	
Individual Member Dues & Donations	910	7,641	31,000	(23,359)	21,200	90,000	
Sponsorships and Grants (excl IETF)	403,771	1,027,599	1,247,500	(219,901)	1,984,296	2,010,000	
Registration and Fee Revenue (excl IETF)	-	145,896	390,000	(244,104)	145,746	390,000	
IETF Meeting Hosts & NOC Sponsors	303,750	767,543	701,000	66,543	1,024,500	966,000	
IETF Meeting Registration & Other Revenue	853,683	1,736,275	1,540,000	196,275	2,460,500	2,297,250	
PIR Contribution to ISOC	6,625,000	19,875,000	19,875,000	-	26,500,000	26,500,000	
PIR Restricted Funds Applied for Unrestricted Use	181,139	222,882	750,000	(527,118)	500,000	1,000,000	
Total Unrestricted Revenues	\$8,672,103	\$24,886,610	\$25,754,500	\$ (867,890)	\$34,086,242	\$34,953,250	

The following graphic reflects year-to-date revenues by source, compared to budget.



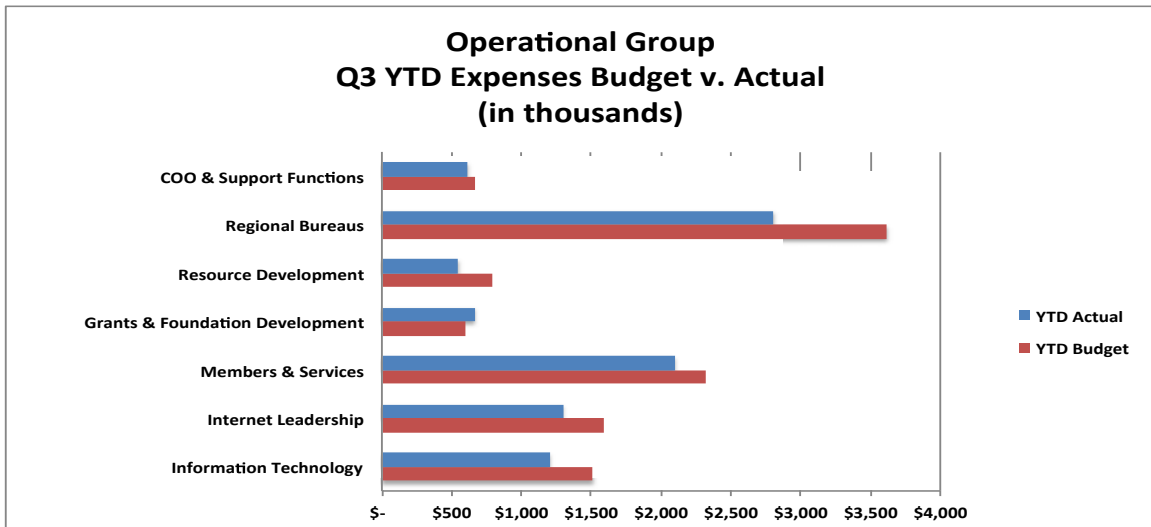
Expenses

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” (currently only NDSS and Internet Advertising Expenses).

Total ISOC departmental expenses for the nine months were 89% of the expenditure budget due the timing of staffing several positions, and timing variances for several areas of programme spending. In Q3 we were able to fill our targeted senior level positions within the 2012 budget, including Senior Directors of Resource Development, IT, and Global Services (regional management). In addition, costs related to multi-year funded programmes (including AXIS and the Latin American programme) were under budget as a timing difference (affecting both revenue and cost of these programmes).

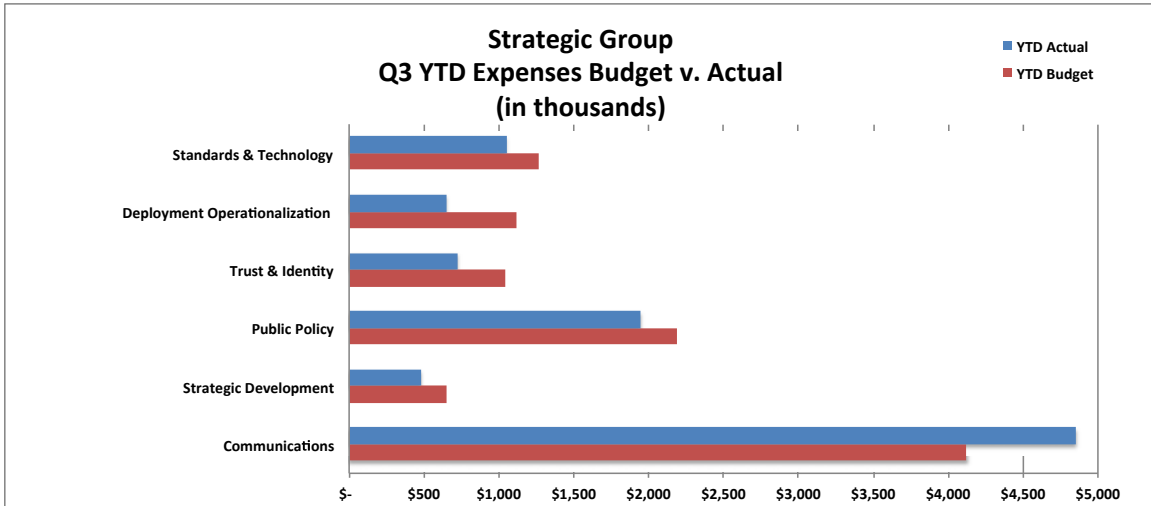
Operational Group

The expenditures incurred by this group for the nine months of the year were 17% (\$1.8m) below budget. This savings generally related to the above-mentioned open positions that were not filled until Q3 and to the timing of programme expenditures, largely in the Internet Society’s Regional Bureau programmes and the Next Generation Leaders programme in IL. As programme expenditures in these areas accelerate in the fourth quarter, particularly as funded regional programmes progress (the Latin America programme and the AXIS programme in Africa), our spending should be closer to the budget for the year.



Strategic Group

The majority of departments within this grouping had a positive expense variance against budget as of September 30, for a total year-to-date savings of \$681K. The Communications department had an overage of \$724K due in large part to the Global INET/20th Anniversary events and additional media support expenses to support other ISOC activities. Nearly half of the underspend in other Strategic Group departments is considered timing in nature, while the other half of the underspend is largely personnel-related and other permanent cost savings.

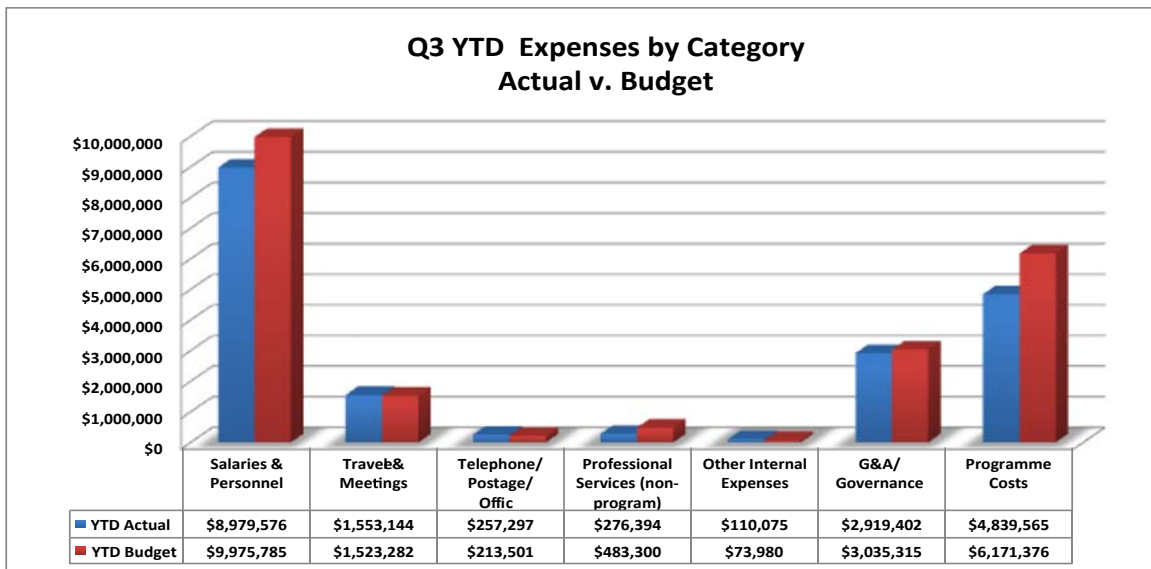


Other Program Expenses

These expenses represent the NDSS symposium, a self-funded event and Internet Advertising Award costs. NDSS Expenses are the external costs related to this symposium, and were slightly over budget due to the higher than expected attendance. Internet Advertising costs are funded expenses (see offsetting revenues recorded in Sponsorship & Grants).

Expenses by Cost Category

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

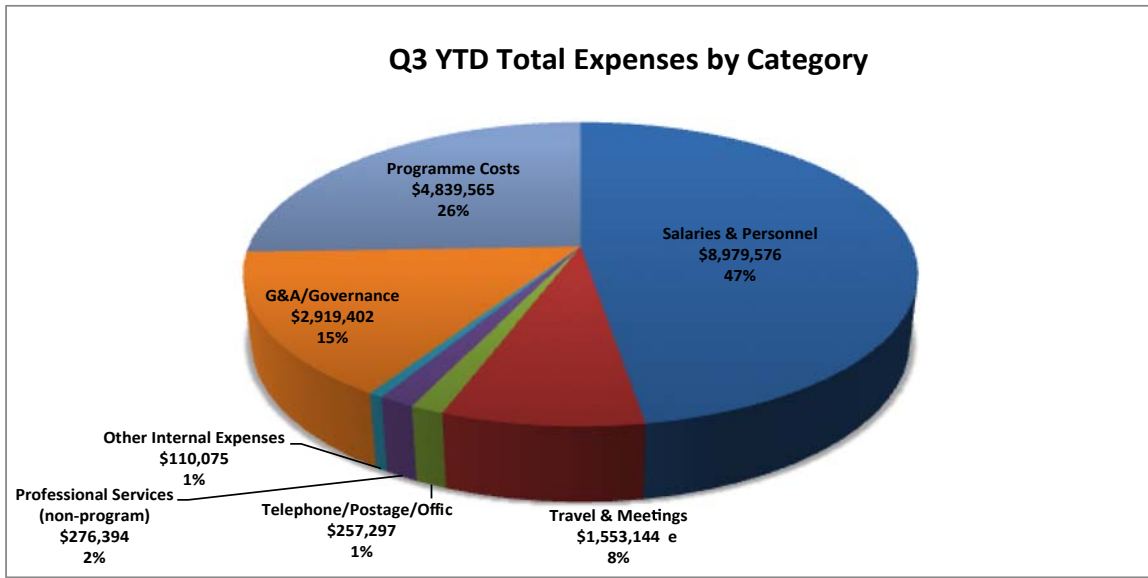


Significant year-to-date variances include:

- Salaries and Personnel costs for the nine months are 90% of the Budget for that period (\$996K savings in the first nine months). This is due to several open positions including

Senior Directors in Resource Development, IT, and Global Services, as well as positive foreign exchange rates. These positions were filled in late Q3.

- YTD Programme costs year-to-date are at 78% of the Budget (\$1.3 million savings). As noted in the section above, the majority of this variance is from Regional Bureaus, Membership & Chapters, Leadership Programs, and DO. Due to the concentration of efforts in Q4 (AXIS, Latin American programme, ION and regional INET meetings), we forecast that the full year expenditures will be closer to, but still under the full-year 2012 budget.
- General and Administrative expenses are 96% of the Budget for Q3 YTD (\$116K 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 exceeded the targets for the nine months of the year due to positive returns on our investments (\$529K or nearly an 4.3% annualized return on invested funds), somewhat offset by negative results from currency exchange rates on the modest amount of Swiss francs we hold. Since we hedged against a drop in the US\$ for 2012, we have not experienced a currency exchange rate gain as the US\$ has risen. However, our lower staff costs in departmental expenses (the majority of our foreign exchange exposure) have more than offset our currency exchange losses on cash held in Swiss francs.

IETF

Attendance at the Vancouver and Paris IETF meetings exceeded the attendance budget, and the mix of fees (late fees, etc) created a surplus attendance revenue of \$196K. Overall sponsorship revenue for both Vancouver and Paris IETF meetings exceeded the budget by \$66K. IETF Expenses for the nine months were under the budget, largely due to lower transition costs and lower than projected NOC costs.

For the full-year, ISOC's contribution to the IETF is expected to continue to be under budget (subject to the Q4 results from Atlanta).

IETF Statement of Activities							
For the Nine Months Ended September 30, 2012							
IETF Summary of Results	Q3 Actual	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	
IETF Revenues	\$ 1,157,433	\$ 2,503,818	\$ 2,241,000	\$ 262,818	\$ 3,485,000	\$ 3,263,250	\$ 221,750 7%
IETF Expenses	(1,345,519)	(3,783,582)	(3,943,049)	159,467	(5,057,000)	(5,409,600)	352,600 7%
IETF Capital Expenditures	(5,017)	(97,960)	(144,000)	46,040	(215,000)	(215,000)	0 0%
ISOC's Contribution to the IETF	\$ (193,103)	\$ (1,377,724)	\$ (1,846,049)	\$ 468,325	\$ (1,787,000)	\$ (2,361,350)	\$ 574,350 24%

Restricted Funds – Statement of Activities

Note that ISOC reports two Statements of Activities: one for Unrestricted Funds and one for Restricted Funds.

During the year, funds designated for particular purposes flow into and out of our Restricted Funds account (this is a balance sheet account, not a separate bank account). Funds received for a particular purpose are NOT recognized in our Unrestricted Statement of Activities until the related work is done. Once released from Restricted Funds, these funds are recognized on our Unrestricted Statement of Activities as revenues.

The Restricted Statement of Activities' beginning balance reflects PIR's \$2 million contribution received in 2010 in support of IETF functions. It also reflects \$210K in other restricted funds, primarily SIDN's multi-year support of the Internet Leadership programme.

Adding to our restricted funds in the first nine months, we include \$135K in initial contract amount from the African Union for the AXIS grant and \$49K in progress payments for the Latin American grant.

In the nine months, we released from Restriction \$222,882 of the PIR funds directed for IETF outreach, as well as \$177K in other funds (\$65K of the SIDN multi-year partnership used to fund the Internet Leadership program, \$49K of State Department Grant for work in Latin America, and \$63K from the advanced AXIS grant funds). These releases of funds from restriction are also reflected as Unrestricted Revenues in our Statement of Activities.

Internet Society Statement of Activities - RESTRICTED For the Nine Months Ended September 30, 2012			
	Actual	Budget	\$ Variance
Restricted Funds Received			
Funds Received for Future Programme Use	\$ 184,195	\$ 200,000	\$ (15,805)
Total Restricted Revenues	184,195	200,000	(15,805)
Funds Used for Directed Purposes			
IETF Outreach	222,882	750,000	527,118
Dr. Jun-Ichiro Hagino	-	-	-
Postel Award	-	-	-
Other Grants and Sponsorships	177,208	(150,000)	(327,208)
Total Funds Used for Directed Purposes	400,090	600,000	199,910
NET CHANGE IN RESTRICTED FUNDS	\$ (215,895)	\$ (400,000)	\$ 184,105
BEGINNING RESTRICTED FUND BALANCE	\$ 2,210,000	\$ 2,210,000	\$ -
ENDING RESTRICTED FUND BALANCE	\$ 1,994,105	\$ 1,810,000	\$ 184,105

Cash and Investments

ISOC continues to maintain a healthy cash and investment position, with a total balance at September 30 of \$17.3 million (approximately \$2 million relates to Restricted Funds). Of this amount, \$13.6 million is invested with Morgan Stanley as Continuity Reserves. Also included in our cash balance is \$21,810 of donations for the IETF Endowment (termed "Permanently Restricted Funds").

Financial Summary

As we reach the final quarter of the year, we reflect on the successes of the first three quarters. We continue to emphasize the targets expressed in the Key Focus Areas in the 2012 Business Plan, as well as prepare to build on our momentum to reach the goals of the 2013 Business Plan.

In 2012, we have particularly enhanced our resources in the areas of Public Policy, Membership and Chapters, Resource Development, and our Regional Bureaus. Globally, we have increased ISOC's presence through Communications efforts and events such as the 20th Anniversary and

Hall of Fame activities. And we are doing more than ever in traditional ISOC mission areas and through major partnership funding programmes in Africa, Latin America, and Asia.

At the same time, we have remained well within Budget expectation overall, and strengthened our balance sheet and cash reserves. Although total revenues are expected to fall about 2% short of the revenue plan, the projected \$34 million in total 2012 revenues represents a 15% increase from 2011, and the \$7 million in ISOC-generated revenue represents a 30% increase in that category. Both trends, added to an active pipeline and a full staff in both Membership and Resource Development, support the aggressive expectations of our 2013 Business Plan.

Attachments:

Statement of Financial Position – September 30

Statement of Activities – For the Nine Months Ended September 30

INTERNET SOCIETY			
Statement of Financial Position			
September 30, 2012			
ASSETS	September 30, 2012		September 30, 2011
Current			
Cash & Cash Equivalents (incl Restricted Funds)	\$	17,327,741	\$ 16,119,565
Accounts Receivable		613,193	411,921
Prepaid Expenses		731,554	472,069
Total Current		18,672,488	17,003,555
Long Term			
Furniture, Equipment, Leasholds (Net)		2,180,326	2,213,811
Total Long Term		2,180,326	2,213,811
Other Assets			
Deposits		154,460	165,866
Total Other Assets		154,460	165,866
TOTAL ASSETS	\$	21,007,274	\$ 19,383,232
LIABILITIES & NET ASSETS			
Current Liabilities			
Accounts Payable	\$	814,327	\$ 490,923
Accrued Employee Benefits		630,235	511,889
Deferred Rent		219,782	152,731
Deferred Construction Allowance		663,802	152,731
Security Deposit Payable		4,035	4,035
Deferred Revenue		552,393	349,689
Total Current Liabilities		2,884,574	1,661,998
NET ASSETS			
Unrestricted Fund Balance		16,106,785	15,319,641
Restricted Fund Balance		1,994,105	2,063,138
Permanently Restricted Fund Balance		21,810	-
Total Net Assets		18,122,700	17,382,779
Total LIABILITIES & NET ASSETS	\$	21,007,274	\$ 19,044,777
BEGINNING NET ASSET BALANCE - 1 January		\$15,918,553	13,313,520
NET CHANGE IN NET ASSETS (Unrestricted/Restricted)		2,204,146	4,069,259
ENDING NET ASSET BALANCE		\$18,122,700	\$17,382,779

Statement of Activities - Unrestricted
For the Nine Months Ended September 30, 2012



	Q3 Actual	YTD Actual	YTD Budget	YTD \$ Variance	YTD % Var	Annual Forecast	Annual Budget	Frcst \$ Variance	Frcst % Var
Revenues									
Memberships and Platinum Sponsorships									
Org Membership/Platinum Sponsorships	\$ 303,850	\$ 1,103,774	\$ 1,220,000	\$ (116,226)	-10%	\$ 1,450,000	\$ 1,700,000	\$ (250,000)	-15%
Individual Member Dues & Donations	910	7,641	31,000	(23,359)	-75%	21,200	90,000	(68,800)	-76%
Memberships and Platinum Sponsorships	304,760	1,111,415	1,251,000	(139,585)	-11%	1,471,200	1,790,000	(318,800)	-18%
Sponsorships and Grants (including IETF)									
Programme Grants & Sponsorships									
ITE Programmes	\$ 204,950	204,950	\$ 228,000	(23,050)	-10%	325,113	450,000	(124,887)	-28%
Other Programmes	95,228	117,228	156,570	(39,342)	-25%	651,125	300,000	351,125	117%
INET Sponsorships	-	412,148	600,000	(187,852)	-31%	592,148	600,000	(7,852)	-1%
DO Hub Sponsorships	-	-	79,000	(79,000)	-100%	-	210,000	(210,000)	-100%
ION Sponsorships	-	-	20,000	(20,000)	0%	10,000	20,000	(10,000)	0%
NDSS Sponsorships	-	31,000	40,000	(9,000)	-23%	31,000	40,000	(9,000)	-23%
Marketing Grants & Awards	107,263	107,263	-	107,263		200,000	-	200,000	
Internet Leadership (NGL, Fellowships)	(3,670)	155,010	123,930	31,080	25%	174,910	390,000	(215,090)	-55%
IETF Sponsorships (incl new sponsor opportunities)	303,750	767,543	701,000	66,543	9%	1,024,500	966,000	58,500	6%
Sponsorships and Grants (including IETF)	707,521	1,795,142	1,948,500	(153,358)	-8%	3,008,796	2,976,000	32,796	1%
Registration and Fee Revenue									
20th Anniversary Gala & Global INET Registrations	-	23,475	310,000	(286,525)	-92%	23,325	310,000	(286,675)	-92%
NDSS Registrations	-	122,421	80,000	42,421	53%	122,421	80,000	42,421	53%
IETF Meeting Registration & Other Revenues	853,683	1,736,275	1,540,000	196,275	13%	2,460,500	2,297,250	163,250	7%
Registration and Fee Revenue	853,683	1,882,171	1,930,000	(47,829)	-2%	2,606,246	2,687,250	(81,004)	-3%
PIR Contribution to ISOC	6,625,000	19,875,000	19,875,000	-	0%	26,500,000	26,500,000	-	0%
PIR Restr Funds Applied for Unrestricted Use	181,139	222,882	750,000	(527,118)	-70%	500,000	1,000,000	(500,000)	-50%
Total Unrestricted Revenues	8,672,103	24,886,610	25,754,500	(867,890)	-3%	34,086,242	34,953,250	(867,008)	-2%
Department & Program Exp (excl IETF)									
Departmental Expenses									
Operations Group									
COO & Support Functions	190,616	614,690	660,860	46,170	7%	866,500	949,990	83,490	9%
Regional Bureaus	1,258,663	2,805,042	3,613,577	808,535	22%	4,568,598	4,923,402	354,804	7%
Resource Development	124,019	548,770	787,796	239,026	30%	905,000	1,168,943	263,943	23%
Grants & Foundation Development	269,376	663,978	603,699	60,279	-10%	911,000	834,072	76,928	-9%
Members & Services	583,551	2,096,388	2,319,846	223,458	10%	2,994,000	3,112,059	118,059	4%
Internet Leadership	448,038	1,294,149	1,585,726	291,577	18%	2,193,500	2,156,997	(36,503)	-2%
Information Technology	395,591	1,200,762	1,511,955	311,193	21%	1,937,796	2,142,088	204,292	10%
Total Operations Group	3,269,854	9,223,779	11,083,459	1,859,680	17%	14,376,394	15,287,550	911,156	6%
Strategic Group									
Standards & Technology	336,920	1,050,269	1,261,678	211,409	17%	1,708,324	1,790,632	82,308	5%
Deployment Operationalization	218,409	652,706	1,114,140	461,434	41%	1,277,250	1,483,140	205,890	14%
Trust & Identity	253,092	728,142	1,046,440	318,298	30%	1,293,000	1,409,688	116,688	8%
Public Policy	685,998	1,947,712	2,191,432	243,720	11%	2,824,000	3,013,452	189,452	6%
Strategic Development	180,756	484,451	654,966	170,515	26%	835,000	865,968	30,968	4%
Communications	1,145,007	4,848,394	4,124,424	723,970	-18%	6,066,452	5,264,128	(802,324)	-15%
Total Strategic Group	2,820,182	9,711,674	10,393,080	681,406	7%	14,004,026	13,827,008	(177,018)	-1%
Total Departmental Expenses	6,090,036	18,935,453	21,476,539	2,541,086	12%	28,380,420	29,114,558	734,137	3%
Other Program Expenses									
NDSS	-	96,799	80,000	(16,799)	-21%	96,799	80,000	(16,799)	-21%
Internet Ad Award Exp (Incl in Grant Rev)	107,263	107,263	-	(107,263)		200,000	-	(200,000)	
Total Other Program Expenses	107,263	204,062	80,000	(124,062)	-155%	296,799	80,000	(216,799)	-271%
Total ISOC Department & Program Exp	6,197,299	19,139,515	21,556,539	2,417,024	11%	28,677,219	29,194,558	517,338	2%
IETF Expenses (excluding Capital)	1,345,519	3,783,582	3,943,049	159,467	4%	5,057,000	5,409,600	352,600	7%
Other Revenue (Expense)	194,909	434,725	300,000	134,725	45%	400,000	400,000	-	0%
NET UNRESTRICTED SURPLUS/(DEFICIT)	\$ 1,324,194	\$ 2,398,238	\$ 554,912	\$ 1,843,326	332%	\$ 752,023	\$ 749,092	\$ 2,930	0%
IETF Summary of Results (included in ISOC results)									
IETF Revenues	1,157,433	2,503,818	2,241,000	262,818	12%	3,485,000	3,263,250	221,750	7%
IETF Expenses (excluding Capital)	(1,345,519)	(3,783,582)	(3,943,049)	159,467	4%	(5,057,000)	(5,409,600)	352,600	7%
IETF Capital Expenditures	(5,017)	(97,960)	(144,000)	46,040	32%	(215,000)	(215,000)	-	0%
ISOC's Contribution to the IETF	\$ (193,103)	\$ (1,377,724)	\$ (1,846,049)	\$ 468,325	25%	\$ (1,787,000)	\$ (2,361,350)	\$ 574,350	24%