

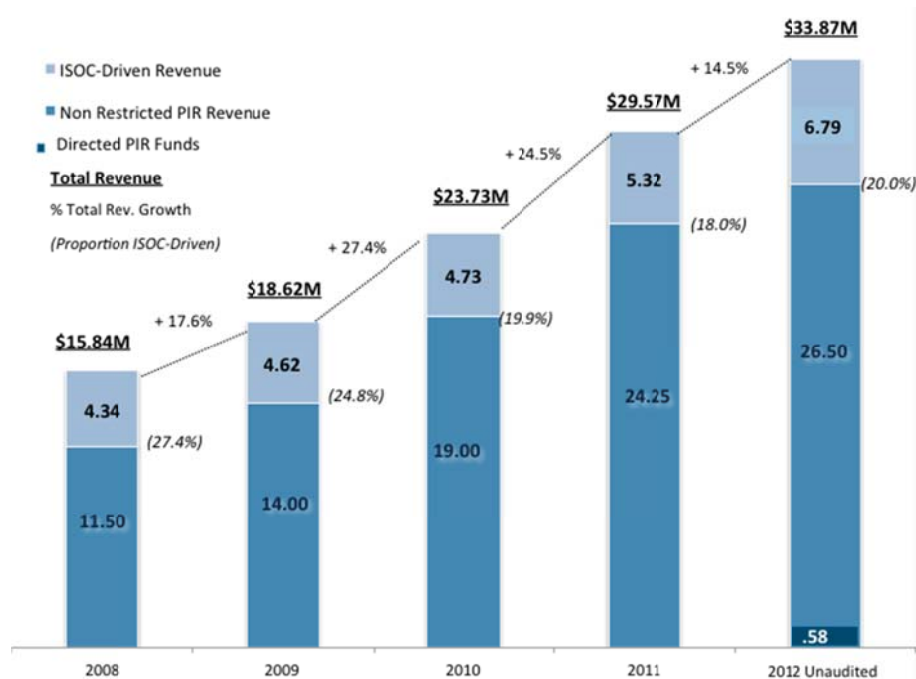
Year End 2012 President and CEO Report and 2012 Pre-Audited Financials

Introduction

The 2012 Business Plan set forth challenging objectives for the organization spanning all areas of operations. Those objectives covered a range of programmes aimed at accelerating our global influence and local reach, as well as aggressive financial targets aimed at further diversifying our revenue base. In short, we aimed to deliver our most impressive year on record.

ISOC achieved significant impact this year in extending its mission around the globe. We significantly increased our activities and impact across the board, particularly in the areas of Public Policy, Membership and Chapters, Development, Technology, Development, Trust & Identity and Deployment (IPv6), and impact through our Regional Bureau activities. Globally, we have increased ISOC's presence through new efforts in Deployment and Operationalization (DO) and Internet Leadership, as well as Communications efforts and events. And we are doing more than ever in traditional ISOC mission areas and through major partnership grant and funding programmes aimed in Africa, Latin America, and Asia.

In addition to major advancements in our mission, 2012 also saw continued growth in ISOC's overall financial health and stability, beating our Continuity Reserve Goals and improving our Public Support Factor. ISOC has experienced double-digit revenue growth each of the past four years, including 14.5% overall revenue growth in 2012 and a 27% increase in ISOC driven revenue. While these targets fell somewhat short of the ambitious goals we set for 2012, our overall trend in year-on-year growth was still significant, as can be seen below.



The dashboard below reviews our performance on specific Key Resource & Effectiveness and Programmatic Goals for 2012. Our 2012 Financial Summary, Statement of Activities and Statement of Financial Position (unaudited) appear at the end of the report.

Overall, ISOC's work has never been more respected, our reach has never been more broad, our impact as deep, or our financial position as strong as it was in 2012, and I'm pleased to provide the Board of Trustees this 2012 Year End Report.

Submitted by: Lynn St. Amour, President & CEO, and the Senior Management Team

2012 Year End Performance Dashboard

2012 Achievements on Programmatic Goals: Objective A

Objective A: Fostering an open, innovative, and trusted Internet worldwide

Key Impact Goals: 1) Accelerate the deployment of key Internet technologies and IETF standards, 2) Advance solutions that protect privacy and identity while safeguarding user choice and global Internet interoperability, 3) Advance implementation of solutions that enhance Internet infrastructure and data security while working to preserve the open, global Internet.



Deploy360 Programme – Key amongst our programme goals and launched in January, our Deploy360 Programme has been highly successful in providing real-world deployment information and engagements to promote the deployment of key Internet technologies. The [Deploy360 portal](#) achieved over 150 deployment resources for network operators, developers, content providers, manufacturers and enterprise networks, including how-to guides, case studies, tutorials, reports and on-line trainings in three focus areas: [IPv6](#), [DNSSEC](#) and [Routing Resiliency/Security](#). The portal has received well over 70,000 visits and 120,000 page views since launch in January. Further, our InternetOn (ION) global conference series was also launched, bringing network engineers and leading industry experts together to discuss emerging technologies and their deployment. To plan, four ION events were held in [San Diego](#), [Sao Paulo](#), [Ljubljana](#), and [Mumbai](#), with significant support and regional extension events and trainings held by our Regional Bureaus.

World IPv6 Launch and v6 Promotion – The Internet Society-organized [World IPv6 Launch](#) event (6 June 2012) and related activities visibility and substantively catalyzed various segments of the Internet industry towards concrete deployment of IPv6. 60+ access providers and several thousand websites participated in World IPv6Launch activities. ISOC Chapters were instrumental raising awareness about IPv6 deployment, including by holding over 30 supporting events around the world in the run up to World IPv6 Launch. In addition, IPv6 traffic at major aggregation points doubled after 6 June and over 10% of Alexa top 1000 websites are now dual-stack deployed. Since World IPv6 Launch, Google, Facebook, and Yahoo! Have observed continued growth of IPv6 uptake by network operators, and progress continues to be reported on the World [IPv6 Launch measurements website](#).

Advancing Internet Trust and Identity - Our Trust and Identity activities have been successful in advancing three streams of a multi-year work programme intended to engender confidence on-line, including managing trusted relationships, emerging research in network architecture and trust, and strengthening the Internet model in the operationalization of trust. Key projects and activities advanced in 2012 include the development of a training course to assist end users in managing their digital footprints, sponsoring and participating in the WSJ Data Transparency Code Sprint to foster the development of free tools to promote data transparency and control, advancing citizen identity management and protection (including through

successful ISOC participation in the US-based National Strategy for Identities in Cyberspace and Identity Ecosystem Steering Group), progressing work on cross-border identity federation (including through a highly successful [workshop](#) in Europe on the issues) , and advancing trust-enabling technical standards and registries. Digital Footprint materials have also been adapted into a set of on-line videos. ISOC is also hosting a dashboard of key information on [Identity Ecosystem](#) topics, issues, and actions and is actively partnering with Identity Ecosystem participants in order to develop and deploy shared tools and services.

Privacy and Identity Policy - Closely integrated with our Trust and Identity technical and ecosystem work, ISOC made great strides on our goals to inform policymakers and [advocate for policy approaches and responses](#) that protect user privacy while supporting Internet principles. Achievements included guiding and coordinating ITAC's contributions to key OECD work on national cybersecurity strategies, the review of the OECD Privacy Guidelines and the economics of personal data, advancing the implementation of cross-border privacy rules in APEC, achieving observer status in the Council of Europe's Consultative Committee on the modernization of Convention 108, and advancing related multi-stakeholder privacy and identity discussions in the WSIS Forum and the IGF. Additionally, ISOC also advanced significant work on standardization related to user privacy with staff serving as [co-chair of the W3C Privacy Interest Group](#) and as a member of the [IAB Privacy Program](#).

2012 Achievements on Programmatic Goals: Objective B

Objective B: Advancing policies and strategies that strengthen the Internet's growth and evolution

Key Impact Goals: 1) Advance a ubiquitous, reliable, and sustainable Internet in developing countries that is on par with the rest of the world, 2) Spearhead advocacy for the fundamental principles of the Internet Model and Internet Ecosystem, 3) Advance the understanding of the value and benefits of open Internet standards to key Internet influencers and increase engagement in open standards processes.

Improving Interconnection and Traffic Exchange (including IXP deployment) in Emerging Economies – We continued to achieve substantial outcomes and impact with our work in this area across multiple, integrated programmatic activities. Among our accomplishments, we exceeded our goals in the growth and maturity of the annual, ISOC-organized [African Peering and Interconnection Forum](#), this year attracting over 200 participants and 15 sponsors to discuss African national and cross-border interconnection opportunities, peering strategies, and related business and policy issues. As evidence of our growing leadership in this area, ISOC [was selected by the African Union](#) to conduct 60 community mobilization and technical workshops to support the establishment of IXPs in 30 African countries. Direct IXP set-up and improvement activities were also carried out in Lesotho, Congo-Kinshasa, Uganda, El Salvador, and Argentina, among other countries. Further, our highly received [study on the impact of IXPs](#) in Kenya and Nigeria exceeded expectations in terms of press, policy, and commercial interest.

Developing Country Capacity Building Activities - We met our goal of engaging 600 developing country network managers and decision-makers in targeted capacity building activities on Internet principles, operations, and deployment. Spearheaded by our Regional Bureaus, we successfully completed a range of technical capacity building workshops across Africa, Latin America, and Asia on topics including basic network operations, DNSSEC, IPv6, BGP and routing, and Internet standards processes and principles, among others. Furthermore, we continued to deepen training assistance and collaboration with network operators groups and capacity building forums in emerging regions.

Internet Governance – Our leadership and advocacy on Internet Governance issues continued to deepen in 2012, and met or exceeded goal expectations. Among our achievements, ISOC successfully secured a role in the new IGF Multi-stakeholder Advisory Group and influenced the UNCTAD CSTD working group on IGF improvements. [Our engagement in the 2012 IGF](#), including from staff, Chapters, and Membership, informed and influenced multi-stakeholder discussions across a range of issues including enhanced cooperation, access, privacy, intellectual property, technology and standards, and cybersecurity, among others. ISOC also successfully extended its presence in regional IGF meetings, including key participation roles in Arab region IGF, the East African IGF, and IGF USA. Additionally, our commissioned [paper on Internet Governance arrangements in Kenya](#), not only highlighted aspects of successful Internet governance practices in Africa, but also advanced the empirical evaluation of Internet governance arrangements by producing a framework for comparison of between countries and over time.

WCIT/WTPF Engagement – ISOC established itself as a leading voice and advocate for the Internet in the run-up to and on-the-ground participation in WCIT and the WTPF, with ISOC issue analysis, expertise, and community perspectives informing and influencing key aspects of the global debate. In addition to the broad influence of our statements, position papers, and formal contributions, we successfully galvanized the broad range of our community, including Chapters and Members, to contribute in the development of our global positions, as well as to participate in national and regional preparatory processes. [more here on outcomes]

Content, Intellectual Property, and Innovation - In 2012, we substantially increased our policy engagement on the issues of content, IPR, and innovation. Among our achievements, we successfully collaborated with UNESCO and the OECD to produce a substantial, innovative paper on the relationship between local content, Internet development, and access prices. We heightened our participation in WIPO on these issues, including direct participation in the diplomatic conference on the protection of audio visual performances, calling upon members states to apply ISOC principles in the elaboration of IPR-related public policies. We also contributed to the EU Parliament’s rejection of the Anti-Counterfeiting Trade Agreement by raising awareness of its negative impact on the Internet. In the US, we convened a successful Regional INET workshop to generate inclusive, multi-stakeholder dialogue on the strengths, weaknesses and challenges for the Center for Copyright Information and the Copyright Alert System. ISOC’s increased engagement on these issues and our ability to construct dialogues across interest groups was highly received and encouraged our future work in this area.

2012 Achievements on Programmatic Goals: Objective C

Objective C: Enabling a vibrant organization and vital global community to advance the Internet's future

Key Impact Goals: 1) Build a global cadre of future Internet leaders who can skillfully advance complex issues at the intercession of policy, technology, and business, 2) Provide the world a trusted independent source for Internet information and thought leadership, 3) Bolster the effectiveness of ISOC as an organisation.



Advancing Internet Leadership Programmes - Our targeted [Internet Leadership programmes](#) aim to prepare a next generation to succeed as leaders in Internet technology and policy. Quantitatively, we exceeded by over 20% our target to engage at least 350 individuals in these programmes in 2012. Furthermore, we expanded the global scope of our [Next Generation Leaders e-learning](#) curriculum by launching concurrent courses in English, French, and Spanish and reaching our goal of serving over 100 individuals. Further, our ISOC Fellowship to the IETF and IGF Ambassadors programmes continue to advance technical and Internet governance participation at the global and local levels and exceed expectations for the number of applications received. In addition, we launched a highly successfully Fellowship Programme for Regulators that brings public policy implementers from around the world to the IETF to discuss a range of technical and policy issues with experts.

Global INET and Internet Hall of Fame - Advancing our thought-leadership as well as community engagement efforts, [GlobalINET](#) brought together over 770 on-site participants from over 110 countries, plus some 1,300 via remote participation, to collaborate on critical issues facing the Internet. In addition to attracting some of the most influential names across the Internet as speakers, the associated Global Chapter Workshop, Collaborative Leadership Exchange and other special interest events extended the core Internet values of grass-roots cooperation and collaboration. Attendee survey results strongly demonstrated the value of the programme, with 96% of attendees rating highly the quality of our conference programme and 93% indicating they would be interested in attending a future event. Further, the [Internet Hall of Fame](#) launch was a tremendous success. In addition to honoring 33 inductees, the launch of the Hall of Fame garnered ISOC broad, global media visibility and attention (including 200+ press articles in 20 countries) and established the Hall of Fame as a platform for ISOC to advocate for the fundamental principles and unique participatory culture that has made the Internet enduring and unique.

Increasing Media Visibility and Social Media Reach – We achieved our quantitative goals for expanding our traditional and social media reach to increase our influence. We placed over 1,000 unique media articles, and gathered over 100,000 followers on ISOC's Facebook page and over 11,000 on Twitter. Website traffic has increased more than 100% year-on-year.

Regionalization Strategy - Our Regionalization strategy, which aims to deepen the penetration and local relevance of ISOC's work across the globe, showed exceptional success this year with our Regional Bureau Directors driving a higher level of visibility for ISOC within their regions, broadening their portfolio of responsibility and decision-making authority, and delivering key successes in achieving impact for global and regional programmatic efforts. This strategy resulted in significant improvements in ISOC's ability, as an organization, to advance its agenda regionally, in ways best

suited to local realities. Across all regions we achieved significantly more visible media placements for policy messages and increased effectiveness in outreach to the technical and policy community by improving the quality, number, and depth of events in the region. In addition to a wide range of workshops and smaller events, the Bureaus also spearheaded 5 highly successful regional INET conferences in [Singapore](#), [New York](#), [Curacao](#), [Madrid](#), [Tallinn](#) and [Qatar](#). Additional grant and sponsorship support increased the Bureaus ability to identify, pipeline, and garner financial contributions and organisational memberships from the continent. Further, efforts spearheaded by our Bureaus deepened the effectiveness of our engagement and collaboration with Chapters and Members across the globe.

2012 Achievements on Programmatic Goals: Objective D

Objective D: Empowering people to achieve human potential through unencumbered Internet use.



Key Impact Goals: 1) Advance the right of people across the world to access and use the Internet on an open, nondiscriminatory basis, respecting the rule of law, 2) Empower individuals and communities, including the vulnerable and underserved, to maximize the transformative opportunities the Internet enables.

Internet and Human Rights Advocacy - We deepened our engagement in work on the Internet and Human Rights this year, enhancing our profile in this area and achieving significant outcomes. Among these, [ISOC participated and successfully introduced the notion of the “open Internet”](#) in the UN Human Rights Council’s Resolution on the protection and promotion of human rights on the Internet. Supported by over 80 countries, the Resolution affirmed that offline rights must be protected online and recognizes the Internet as a driver of development – a significant global achievement. We also successfully achieved a multi-pronged campaign culminating on Human Rights Day 2012. The work included an innovative [paper on human rights and Internet protocols](#), a highly successful social media campaign cultivating grass-roots advocacy on the issue, and engagement with ISOC Chapters. ISOC also successfully increased its visibility and voice on these issues through the WSIS Forum 2012 and IGF 2012, organizing workshops including diverse stakeholders’ perspectives and fostering the recognition of the Internet’s openness as a key foundation for human rights, in particular regarding freedom of expression and freedom of assembly.

Regional and Local Empowerment – Advanced substantially by our Community Grants programme, we fully met our goal of supporting and engaging in over 20 regional and local Internet empowerment projects. The supported projects, which include grants for Chapter/Member-driven community initiatives, represented an impressive range of activities including access, knowledge and skills initiatives for rural, youth, women’s and disabled communities, community education on Internet governance and public policy issues, and training and support for technology deployment, among others. In addition, we deepened our engagement with the Digital Empowerment Fund of India to extend Internet access through wireless network training and deployment across rural and remote areas of India.

2012 Key Resource and Effectiveness Goals Financial

Note Well: Financial results in this dashboard represent pre-audited figures and are subject to the annual independent audit

Year End
Performance

Increase ISOC-Driven revenue to US \$7.4 million (memberships, sponsorships and grants) – a 37% increase over 2011

- *Achieved \$6.8M in ISOC-Driven Revenue, representing a 91% achievement of goal and an increase of 27% in ISOC-Driven Revenue over 2011. 9% shortfall primarily related to lower Global INET registration fees, timing of grant recognition, Organizational Membership revenues.*



Increase sponsorship and grant contributions (excl. IETF meeting sponsorships) to US \$2.0M in revenue – in excess of 250% growth over 2011.

- *Achieved \$1.55M in this revenue category, representing a 78% achievement of goal. Shortfall primarily related to timing of grant recognition as recognition of revenue and offsetting expenses were shifted to 2013. We also received a \$1.3M grant for IXP development at the end of the year in 2012 that will be recognized in 2013/2014.*



Secure US \$0.96M in IETF meeting host and other sponsorships

- *Achieved \$1.055M revenue in this category, exceeding goal by 10%.*



Manage ISOC expenses within budget, resulting in an unrestricted Net Operating Surplus of \$350,000

- *Total functional expenses were \$843,000 less than the budget for 2012. Lower IETF contribution was also positive but offset a drawdown of only half of the budgeted PIR restricted funds (making unused funds available for 2013-2014). Achieved unrestricted Net Operating Surplus (before interest) of \$157,000.*



Attain \$14.4M in Continuity Reserve funds

- *Attained \$15.2M in unrestricted cash reserves, exceeding goal.*



Establish an Internet Standards endowment and secure \$2M in endowment anchor funds

- *Open Internet Endowment had its “soft launch” at IETF 84 in Vancouver, resulting in strong support from the IETF and \$26,000 in individual pledges. Substantial work has been accomplished (adoption of an Endowment Policy, selection of an Endowment Investment Advisor, agreement on overall positioning of the endowment, as well as professional marketing materials, website etc.*
- *This work was impacted quite significantly by the extended hiring cycle of the Senior Director in charge of Business Development. However, our pace picked up quite considerably then including cultivating meetings with initial prospective donors. While the \$2M financial target in 2012 proved aggressive, the program is well positioned for 2013.*



Human Resources

Achieve significant improvement in key areas of the ISOC's staff survey (as measured by the average of positive answers exceeding 80%)

- *The 2012 Survey continued to reflect high marks in many areas, including 93% of staff indicating they enjoyed their work and 82% saying they look forward to coming to work every day. However, our 68% average positive response rate fell short of goal expectations. It should be noted that ISOC staff grew by 40% during this period bringing exciting opportunities but also growth challenges to both incoming and existing staff. In 2012 we implemented a robust staff-led process to address points raised in the survey, which will be accelerated in 2013.*

Membership

Demonstrate ISOC's value to its membership community by achieving a combined membership revenue of US \$1.8M from organizational and individual members – a 30% increase over 2011

- *Combined organizational and individual membership revenue achieved \$1.52M, representing a 15% increase over 2011, and an 85% achievement of the 2012 target. Organization Membership revenues achieved \$1.5M, or 88% of the \$1.70 target. Individual member and donor revenue fell \$76,000 short of the aggressive \$90,000 in the 2012 plan.*

Demonstrate ISOC's values to new and continuing organisational members by obtaining 40 new organisational memberships in 2012 and retaining 95% of current organisational members

- *As of 31 December, 2012, ISOC had 146 Organizational Members, representing an addition of 29 new members and a retention rate of 95%. Further ISOC had 5 members upgrade their membership class. The combination of 29 new members and 5 upgrades represents 85% of the goal, in addition to meeting the 95% retention rate by 100% of goal.*

Broaden ISOC's base of individual members by doubling individual membership numbers to 120,000

- *After examining our membership database, we found that our 2012 starting figure of 60,000 individual members appeared to be overstated. The team launched a programme to update database business rules to assure membership best practices and reflect more accurate counting of individual members.*
- *While individual membership efforts fell short of expectations, new individual members in 2012 totalled over 8,000.*

Chapters

Grow ISOC's global reach by increasing the number of contributing and engaged ISOC chapters by 20%

- *At the end of 2012, ISOC had 90 active Chapters, plus 8 Chapters in the process of formation and 8 Chapters being rejuvenated.*
- *Membership and Services group focused on strengthening the existing, rejuvenating, and in-development Chapters. Through the efforts of our Membership Services group and our expanded Regional Bureaus, ISOC's support of, engagement with on policy and technical matters, and member activities with the Chapters was stepped up considerably and made the Chapters more effective as well as stronger advocates for the Internet and for our principles. Notably, our relationship with Chapters has never been more constructive, more positive or more productive.*

Grow mutual commitment and responsibility between ISOC and its chapters as demonstrated by achieving 100% with ISOC Letters of Affiliation

- *The Letter of Affiliation was placed on hold pending the outcome of the by-law revision process.*



2012 Financial Review (Pre Audited)

ISOC achieved its ambitious 2012 agenda while staying very close to our overall financial targets (see the attached financial statements).

For 2012, we achieved a Surplus of \$625K, compared to a budget of \$749K. This surplus is less than previously forecast, as earlier surpluses in expenses (travel, project costs) were somewhat offset by year-end accruals, and some Q4 grant revenue was delayed into 2013.

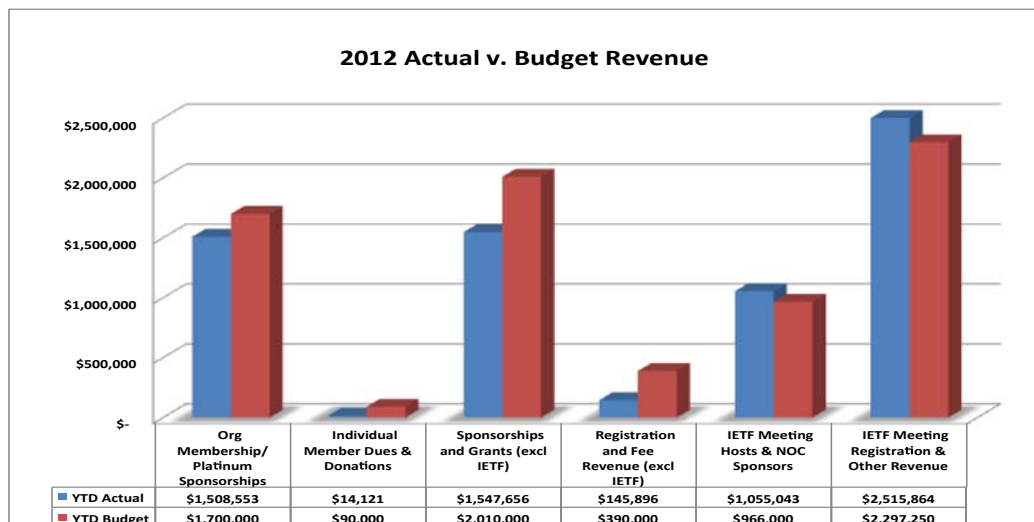
At the end of 2012, ISOC held \$18.1 million in cash and investments. Of this amount, \$2.9 million is designated for specific future use (including \$1.4 million from PIR, and \$1.3 million in an IXP development grant), resulting in \$15.2 in unrestricted cash. Our target for Continuity funds was \$14.4 million, thereby exceeding our goal.

Key factors impacting the surplus:

- Overall functional spending was \$.8 million under budget, largely due to careful hiring practices (particularly at the Senior Director level, where we hired key personnel in the latter half of 2012), and delays in grant-funded programme expenditures (related to the aforementioned delay in Grant Revenue into 2013 as revenue and expense recognition go hand in hand).
- ISOC-generated revenues were nearly \$6.8 million, while about \$.66 million (9%) less than the 2012 revenue plan this represented significant growth (27%) of over 2011. The shortfalls as previously reported were in membership revenues, delayed recognition of grant revenues (moved into 2013), and a programme to waive a greater number of Global INET registration fees.
- As a consequence of higher IETF host/sponsor revenue (ISOC's responsibility), favorable IETF expenses, and on target meeting registration fees, ISOC will contribute approximately \$1.8 million to IETF operations (including capital tools expenditures) compared to the \$2.3 million budget.
- In spite of the many ways ISOC supports the IETF (both monetarily and administratively), ISOC used only about half (\$583K) of the expected use (\$1 million) in restricted funds (revenues) supplied in 2010 by PIR for IETF outreach programmes, leaving the remaining funds to be recognized in 2013-2014.

Revenues

The \$33.9 million in total 2012 revenues represents a 14.5% increase from 2011, and the \$6.8 million in ISOC-generated revenue represents a 27% increase in that category. These are commendable levels of progress, as ISOC has continued to increase its revenue despite the continued impact of the economic downturn on global economies. While these historically high marks were less than the consciously aggressive 2012 revenue plan, we are building a very good pipeline for the future.



2012 revenue highlights include:

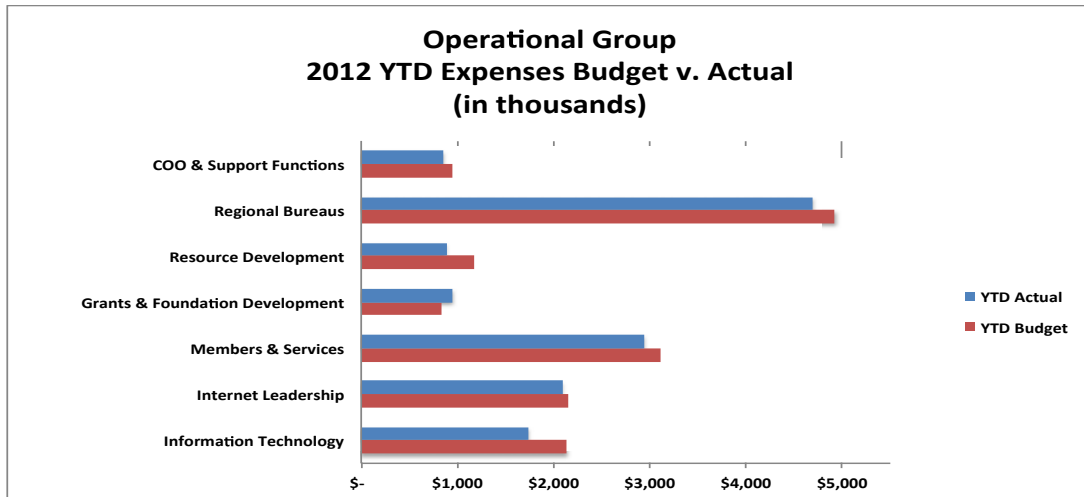
- ISOC brought in over \$2.5 million in new grants in 2012. Still, recognizable revenue for Sponsorships & Grants (excluding IETF) fell \$462K short, as the timing of revenue recognition (and related programme expenses) were shifted into 2013 for both the AXIS grant (Africa) and the IL-LAC grant (Latin America) – some of these factors were outside of ISOC’s control. (As we work to increase our grant activities, we have also asked for advice on how best to report these. The financial impact of grants usually nets out as revenues are recognized only as expenses are incurred, but there can still be swings in both revenues and expenses even while not impacting the financials);
- Org Membership revenue increased 15%, from \$1.4 million to \$1.5 million. However, this fell short of the 30% budgeted increase;
- Individual Member & Donor revenue fell \$76K short of the revenue plan;
- Registration & Fee revenue (excluding IETF) was \$244K under the plan, as ISOC (with Board support) reduced the registration fee structure for the Global INET events in line with our principles to minimize barriers to participation;
- IETF sponsorships, secured by ISOC’s Membership group, exceeded the budget by \$89K, while IETF meeting registration fees surpassed the plan by \$218K.

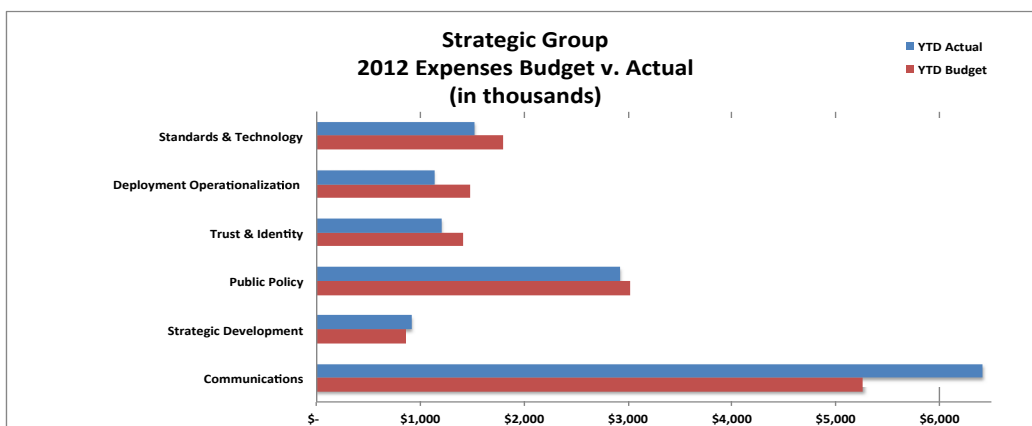
At the end of 2012 (announced in 2013), ISOC also received \$1.3 million grant that is dedicated to IXP development to be expended over the next two years (2013-2014). These funds were not recognized as revenue in 2012 but were received and will be recognized when spent on IXP programmes over the next two years.

ISOC Functional Expenses

Total functional expenses (the departmental work of ISOC, including programme costs) were \$843K (3%) less than the 2012 budget. Lower staff-related costs made up the majority of savings, while delays in grant-funded projects reduced expenses and revenues alike.

All departments were under budget, except for Communications (Global INET events and public relations expenses) Grants/Endowments (support costs for the Open Internet Endowment), and Strategic Development (strategy activities).





Other Revenue/Expenses (Interest Income & Currency Fluctuation)

Return on ISOC's investments exceeded the plan (\$571K vs. \$400K), as income from fixed investments (bonds) remained relatively stable for most of 2012. This was partially offset by fluctuations in the value of Swiss francs held in Geneva (a loss of \$102K), with most currency rate losses occurring in the third quarter.

IETF Results and Contribution from ISOC


The IETF (as previously forecast) required a lower than budget contribution from ISOC. All categories (meeting host revenue, miscellaneous sponsorship revenue, registration fees, and operating expenses) had favorable variances. Capital expenditures for tools development were slightly over plan due to project management costs, but were well under such costs recorded in 2011 (\$368K).

| IETF Statement of Activities For the Year Ended December 31, 2012 | | | |
|--|-----------------------|-----------------------|-------------------|
| IETF Summary of Results | YTD Actual | YTD Budget | YTD Variance |
| IETF Revenues | \$ 3,570,907 | \$ 3,263,250 | \$ 307,657 |
| IETF Expenses | (5,126,436) | (5,409,600) | 283,164 |
| IETF Capital Expenditures | (255,075) | (215,000) | (40,075) |
| ISOC's Contribution to the IETF | \$ (1,810,604) | \$ (2,361,350) | \$ 550,746 |

Restricted Funds

ISOC recognizes funds received from sponsors or donors in the year received or committed in one of two ways. Unrestricted funds are recorded in our main financial statement (see the Unrestricted Statement of Activities as an attachment to this report).

However, donors/sponsors may direct ISOC to apply funds to future programmes or specific efforts. These funds are not immediately shown in ISOC's Unrestricted Statement of Activities, but shown in a separate statement of "restricted funds". In future periods, as those restricted funds are applied to programmes, those funds are then recognized as "unrestricted revenues". To be mindful of funds held for future obligations, we show Restricted funds in a separate table.

| Statement of Activities - RESTRICTED | |  | | |
|---|---------------------|---|---------------------|--|
| For the Year Ended December 31, 2012 | | | | |
| | Actual | Budget | \$ Variance | |
| Restricted Funds Received | | | | |
| Funds Received for Future Programme Use | \$ 1,444,451 | \$ - | \$ 1,444,451 | |
| Total Restricted Revenues | 1,444,451 | - | 1,444,451 | |
| Funds Used for Directed Purposes | | | | |
| IETF Outreach | 583,304 | 1,000,000 | 416,696 | |
| Dr. Jun-Ichiro Hagino | 8,683 | | (8,683) | |
| Postal Award | 11,685 | 11,685 | - | |
| Other Grants and Sponsorships | 178,146 | - | (178,146) | |
| Total Funds Used for Directed Purposes | 781,818 | 1,011,685 | 229,867 | |
| NET CHANGE IN RESTRICTED FUNDS | \$ 662,633 | \$ (1,011,685) | \$ 1,674,318 | |
| BEGINNING RESTRICTED FUND BALANCE | \$ 2,210,000 | \$ 2,259,718 | \$ (49,718) | |
| ENDING RESTRICTED FUND BALANCE | \$ 2,872,633 | \$ 1,248,033 | \$ 1,624,600 | |

Of particular note, in 2010, ISOC received an additional \$2 million in funding from PIR, dedicated to support of IETF outreach efforts. During 2012, ISOC recognized \$583K in such support expenditures (e.g., IETF fellows, IETF Journal, media outreach, Leadership and DO programs), thus releasing these funds from restriction (see the Unrestricted Statement of Activities, where these IETF support funds are reported in the unrestricted revenue section). The remaining funds to be used toward IETF outreach will be used in 2013-2014.

Public Support Test

The Public Support Test factor for 2012 will be calculated with the filing of the 2012 Form 990 (US tax filing) in November. The factor is expected to increase slightly (a positive impact), from about 13.8% in 2011 to about 14.0% for 2012. This would be the first increase since before 2006. With a \$10 million non-recurring contribution from PIR, this factor would retract somewhat in 2013 (to an estimated 13.5%), but resume its trajectory of improvement in 2014.

Continuity Funds, Restricted Funds

At the end of 2012, ISOC held \$18.1 million in cash and investments. Of this amount, \$2.9 million is designated for specific future use (including \$1.4 million from PIR, and \$1.3 million in an IXP development grant). Therefore, net of these designated funds, ISOC held \$15.2 million in unrestricted funds. Our target for Continuity funds was \$14.4 million, thereby exceeding our goal as we move toward our 2015 target for Continuity funds.

Unaudited 2012 Financial Reports

The 2012 audit fieldwork began March 21st, with a target date for final audited statements in May. The results of the audit will be reported to the Audit Committee, and subsequently to the Board at its May Board call. The unaudited financials statements for 2012 are included in this package.

Statement of Activities - Unrestricted
For the Year Ended December 31, 2012



| | YTD Actual | YTD Budget | YTD \$ Variance | YTD % Var |
|---|-------------------|-------------------|---------------------|--------------|
| Revenues | | | | |
| Memberships and Platinum Sponsorships | | | | |
| Org Membership/Platinum Sponsorships | \$ 1,508,553 | \$ 1,700,000 | \$ (191,447) | -11% |
| Individual Member Dues & Donations | 14,121 | 90,000 | (75,879) | -84% |
| Memberships and Platinum Sponsorships | 1,522,674 | 1,790,000 | (267,326) | -15% |
| Sponsorships and Grants (including IETF) | | | | |
| Programme Grants & Sponsorships | | | | |
| ITE Programmes | 107,413 | 450,000 | (342,587) | -76% |
| Other Programmes | 524,786 | 300,000 | 224,786 | 75% |
| INET Sponsorships | 486,341 | 600,000 | (113,659) | -19% |
| DO Hub Sponsorships | - | 210,000 | (210,000) | -100% |
| ION Sponsorships | - | 20,000 | (20,000) | 0% |
| NDSS Sponsorships | 31,000 | 40,000 | (9,000) | -23% |
| Marketing Grants & Awards | 215,661 | - | 215,661 | |
| Internet Leadership (NGL, Fellowships) | 182,455 | 390,000 | (207,545) | -53% |
| IETF Sponsorships (incl new sponsor opportunities) | 1,055,043 | 966,000 | 89,043 | 9% |
| Sponsorships and Grants (including IETF) | 2,602,699 | 2,976,000 | (373,301) | -13% |
| Registration and Fee Revenue | | | | |
| 20th Anniversary Gala & Global INET Registrations | 23,475 | 310,000 | (286,525) | -92% |
| NDSS Registrations | 122,421 | 80,000 | 42,421 | 53% |
| IETF Meeting Registration & Other Revenues | 2,515,864 | 2,297,250 | 218,614 | 10% |
| Registration and Fee Revenue | 2,661,760 | 2,687,250 | (25,490) | -1% |
| PIR Contribution to ISOC | 26,500,000 | 26,500,000 | - | 0% |
| PIR Restr Funds Applied for Unrestricted Use | 583,305 | 1,000,000 | (416,695) | -42% |
| Total Unrestricted Revenues | 33,870,438 | 34,953,250 | (1,082,812) | -3% |
| Department & Program Exp (excl IETF) | | | | |
| Departmental Expenses | | | | |
| Operations Group | | | | |
| COO & Support Functions | 859,406 | 949,990 | 90,584 | 10% |
| Regional Bureaus | 4,683,820 | 4,923,403 | 239,583 | 5% |
| Resource Development | 885,164 | 1,168,943 | 283,779 | 24% |
| Grants & Foundation Development | 956,398 | 834,072 | (122,326) | -15% |
| Members & Services | 2,935,769 | 3,112,059 | 176,290 | 6% |
| Internet Leadership | 2,087,613 | 2,156,997 | 69,384 | 3% |
| Information Technology | 1,739,011 | 2,142,087 | 403,076 | 19% |
| Total Operations Group | 14,147,181 | 15,287,551 | 1,140,370 | 7% |
| Strategic Group | | | | |
| Standards & Technology | 1,525,111 | 1,790,632 | 265,521 | 15% |
| Deployment Operationalization | 1,130,238 | 1,483,140 | 352,902 | 24% |
| Trust & Identity | 1,207,340 | 1,409,688 | 202,348 | 14% |
| Public Policy | 2,925,273 | 3,013,452 | 88,179 | 3% |
| Strategic Development | 921,449 | 865,968 | (55,481) | -6% |
| Communications | 6,414,903 | 5,264,128 | (1,150,775) | -22% |
| Total Strategic Group | 14,124,314 | 13,827,008 | (297,306) | -2% |
| Total Departmental Expenses | 28,271,495 | 29,114,559 | 843,064 | 3% |
| Other Program Expenses | | | | |
| NDSS & Itojen Service Award | 99,799 | 80,000 | (19,799) | -25% |
| Internet Ad Award Exp (Incl in Grant Rev) | 215,661 | - | (215,661) | |
| Total Other Program Expenses | 315,460 | 80,000 | (235,460) | -294% |
| Total ISOC Department & Program Exp | 28,586,955 | 29,194,559 | 607,604 | 2% |
| IETF Expenses (excluding Capital) | 5,126,436 | 5,409,600 | 283,164 | 5% |
| Net Operating Surplus (Deficit) | 157,047 | 349,091 | 192,044 | 55% |
| Other Revenue (Expense) | 468,264 | 400,000 | 68,264 | 17% |
| NET UNRESTRICTED SURPLUS/(DEFICIT) | \$ 625,311 | \$ 749,091 | \$ (123,780) | -17% |

INTERNET SOCIETY
Statement of Financial Position
December 31, 2012

| ASSETS | December 31, 2012 | December 31, 2011 |
|---|--------------------------|--------------------------|
| Current | | |
| Cash & Cash Equivalents (incl Restricted Funds) | \$ 18,127,083 | \$ 15,841,266 |
| Accounts Receivable | 652,324 | 366,321 |
| Prepaid Expenses | 546,690 | 738,101 |
| Total Current | 19,326,097 | 16,945,688 |
| Long Term | | |
| Furniture, Equipment, Leasholds (Net) | 2,210,266 | 2,510,460 |
| Total Long Term | 2,210,266 | 2,510,460 |
| Other Assets | | |
| Deposits | 165,307 | 154,460 |
| Total Other Assets | 165,307 | 154,460 |
| TOTAL ASSETS | \$ 21,701,670 | \$ 19,610,608 |
| LIABILITIES & NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable | \$ 1,290,877 | \$ 891,191 |
| Accrued Employee Benefits | 1,632,412 | 1,330,153 |
| Deferred Rent | 228,671 | 166,346 |
| Deferred Construction Allowance | 633,629 | 754,320 |
| Security Deposit Payable | 4,035 | 4,035 |
| Deferred Revenue | 680,264 | 609,010 |
| Total Current Liabilities | 4,469,888 | 3,755,055 |
| NET ASSETS | | |
| Unrestricted Fund Balance | 14,333,541 | 13,708,553 |
| Restricted Fund Balance | 2,872,633 | 2,210,000 |
| Permanently Restricted Fund Balance | 25,608 | - |
| Total Net Assets | 17,231,782 | 15,918,553 |
| Total LIABILITIES & NET ASSETS | \$ 21,701,670 | \$ 19,673,608 |
| BEGINNING NET ASSET BALANCE - 1 January | \$15,918,553 | 13,313,520 |
| NET CHANGE IN NET ASSETS (Unrestricted/Restricted) | 1,299,567 | 2,605,033 |
| ENDING NET ASSET BALANCE | \$17,218,120 | \$15,918,553 |