

ISOC BOARD OF TRUSTEES – NOVEMBER 11 - 12, 2006

OPERATIONAL REVIEW OF 2006

The Strategic Operating Plan of the Internet Society is divided into two sections:

Part I – Strategy

This section was approved by the ISOC Board in mid 2005, after consultation with many individuals both inside and outside the organization. This document is not expected to change often, as it focuses on the mission and purposes of the Internet Society and takes a high level more strategic view, bridging strategic vision with our operational plans. It is guidance for our medium to long term plans, both operational and strategic, and is intended to help orient new and existing staff alike as we significantly grow our organization and our activities. It can be found at: <http://www.isoc.org/isoc/SOP.pdf>.

Part II – Programs and Budget – 2006

Part II is the annual operating plan and budget for the Internet Society. It is updated on an annual basis and developed in consultation with individuals from across our community. This ensures our budget and activities meet the goals and purpose of ISOC while reflecting needs seen by our members. It can be found at: <http://www.isoc.org/isoc/SOP-Part2.pdf>. This report provides an update.

Our 2006 Operational Plan declared 2006 a Pivotal Year for ISOC, and it is indeed turning out to be just that, as we built significantly on our most important achievements of the past few years. ISOC undertook a number of very aggressive goals for 2006. For any organization, simply doubling its size (and essentially bringing in a whole new top-level structure) would have been enough in one year, but in addition we took on significant program commitments in policy, education and outreach because the time was right and the opportunity was now. We are delivering on all of them thanks to the great dedication of the staff – current and new.

Standards

In the area of Internet standards, ISOC and the Internet Engineering Task Force's (IETF) Administrative Oversight Committee (IAOC) made considerable progress in establishing a new and significantly higher performing Administrative support structure for the IETF. All the contractual elements were put in place last December when the IETF, ISOC and CNRI formally transitioned all the necessary elements, and much progress has been made in the operations.

This is a new operating model for ISOC management and the ISOC Board, acting largely as overseers through the IAOC, rather than directly operationally responsible. As the IASA budget represents a significant amount of financial support from ISOC this has been all the more challenging. The fact that this has been a success (and there were many business processes and relationships that needed defining, as well as operational areas that needed careful navigation) has strengthened the relationship between ISOC and the IETF, and I believe has built a good solid platform based on mutual trust and respect. This will allow us to work even more closely with the IETF, IAB and IRTF in the more strategic

area of architectural issues for the Internet, and in giving increased visibility to the work being done in the IETF through our activities in policy, education and outreach.

This past year has also seen many operational successes in this area and they are described in the attached IASA and IAOC reports submitted by Ray Pelletier (IETF Administrative Director) and Lucy Lynch (IAOC Chair). We expect to meet our 2006 budget commitments fully including successfully completing an open bid process for the RFC Editor, and substantially reducing the costs of providing this service.

Public Policy

In Public Policy, ISOC continued to play a valuable and increasingly central and visible role in various Internet Governance activities. Our continued strong, responsible and respectful positions have brought increased recognition and support for our mission, our organization, and it has given us excellent access to policy decision makers and many other critical organizations across the world. We will continue to build on this and have begun expanding our policy activities into other equally critical areas, such as Next Generation Networks (NGN) and Net Neutrality. We expect to fully meet our commitments with one minor exception and that is in the area of Regional Policy Advisory Groups (RPAG's) where some RPAG's will not be formally established until next year as it has proven to be more sensitive and complex than expected. Finally, we welcome Constance Bommelaer to our Policy group. Constance joins us from a previous position in the French Prime Minister's office and though she has been with us only a short time has already made significant contributions. Constance will not be with us for the coming Board meeting as she will be our representative that week at the ITU Plenipotentiary (held every four years to establish the strategic plan and operating budget for the ITU). The Plenipot will be covered in the second and third weeks by Matthew Shears and myself. A more complete accounting of our performance to our commitments is included in the attached policy report submitted by Matthew and Constance.

I would also like to take this opportunity to thank Mike Nelson for his excellent support to ISOC in his position as VP of Public Policy. This VP position was the last remaining VP position. The other (volunteer) VP slots had all been replaced by permanent staff. Mike will not be leaving us though, as he will assume the role of the Chair of the North American Policy Advisory Group (NAPAG), and will continue to work closely with Matthew and Constance.

Education

In Education, we continued to solidify and expand our "traditional" activities while working to improve the self-sustainability of these efforts. We continued our expansion into newer areas such as a new ccTLD policy and operations tutorial which has enhanced our ability to cover a broader range of ccTLD related topics and regions. Mirjam Kuehne was the force behind delivering on many of these activities. Our efforts in the Education pillar have been supplemented quite significantly by the addition of Karen Rose who has a particularly pertinent background in policy and Internet matters. This is being used to full advantage as we expand our educational outreach to policy decision makers across the world. Mirjam and Karen have submitted a more complete accounting of our performance to commitments and this is included below. We expect to fully meet our program and budget commitments. In addition, staff has updated an accounting of our activities based on direction we received from the Board as part of our fall 2004 Board meeting. It is attached and is called: ISOC's 2004 Strategic Planning Activity - A 2006 update. This is included here (and it was also updated last year) as it has served as a reference for many of our activities and is occasionally queried by some Trustees.

Public Interest Registry (PIR)

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In addition, the Public Interest Registry (PIR), the home of the .ORG Top Level Domain continues its own quite significant growth and this has allowed ISOC to increase our activities in a number of areas, some of which are outlined above or in the attached reports. They expect to meet their 2006 budget commitment and in addition have contributed an additional \$600K based on a higher than expected 2005 surplus. Significant activities are underway in PIR with respect to further expanding their efforts in becoming the exemplary registry as it relates to Policy matters and end-user environments. They are, of course, already exemplary in their operating practices. We thank them for their continued efforts and also extend a thank you to Afiliis for their excellent and broad support of PIR and its activities.

Members and Chapters

We are excited about building on our accomplishments and working with our members, chapters and partners to further leverage our vision and activities. ISOC now has the strongest base in its history, and this is an excellent platform from which to significantly increase all our activities and to work more aggressively with all our members and chapters on fulfilling our mission – the Internet is for Everyone. This is an area where we continue to expend significant energy but there remains a lot to do.

One of our core commitments in the 2006 budget was to increase the amount of resource available in the Membership area, and to this end we are very happy to announce three new appointments: Terry Monroe has joined us as the Director of Development and Membership. Joining us from a communications industry association, Terry brings highly relevant experience, not only in the Membership arena, but also in the area of community building, which will be a key component of many of our activities current and future. In addition, Anne Lord will be joining us in our Geneva office later this month from her role in APNIC as Communications Director where she was effectively the second in command. She will be responsible for all our Chapter and Individual Membership activities and her background is directly applicable to ISOC and what we want to accomplish in this area. Dawit Bekele joins us as the African Bureau Manager and he will be located in Ethiopia. Dawit brings a wealth of experience and is fluent in three languages and we are very excited about what his appointment and this position will bring to Africa and to ISOC. Additional restructuring and hiring is also underway, in particular now that we have these two positions filled we are focusing on the Sr. Manager for Organizational Membership and are in the process of making some additional internal moves to better align and support staff career objectives and our business goals.

We are aggressively pursuing our revenue commitments on all line items, and after a very promising start, and in the interest of conservative forecasting, are disappointed that we are signaling a potential shortfall of member related revenues and sponsorships of approx. \$300 - 400K. This is very disappointing and we are working hard to turn it around, particularly in the area of Platinum contributions. We had expected an increase in Platinum contributions as part of an extended fundraising activity related to our increased support to the IETF and a change in hosting for the IETF meeting model, but this model took longer than expected to define and the take-up has also been slower than expected. There has been some recent success; we have secured commitments of \$50K for 2006 and advance commitments of \$175K for the IETF meeting next spring, so we believe the model is appropriate and our efforts will pay off. Terry Monroe (who joined us only two weeks ago) and his team and I are working aggressively to secure additional member related revenues in the remainder of 2006, however, we will likely experience a shortfall against the budget. This shortfall is however much more than offset by the additional contribution from PIR's 2005 surplus of \$600K, as well as significant decreases in some other areas of our operating expense, particularly due to longer than expected start-up periods for many of our hires as well as under-spending in external program costs.

The total projected surplus is forecasted to be approx. \$1.6M vs. the budgeted \$284K. This will allow us to meet our operating reserve commitment to the Board and to the IETF with respect to six (6) months cash on hand vs operating requirements nearly a year ahead of schedule. This is a much more comfortable and responsible position to be in given our increasing budget, our increased level of activity, and aggressive plans for future years. Cash on hand at yearend is forecasted to be approx. \$3.0M which meets the reserve target. A more complete accounting of our performance to our commitments in the Membership area is included in the attached report submitted by David McAuley and Terry Monroe.

Finally, one last staff announcement, David McAuley will be leaving ISOC's employ at the end of this year and we would like to thank him for his efforts and his support, particularly acknowledging his support through this transition period.

Infrastructure and Restructuring

And finally, last but not least, we have made significant advances in our infrastructure, these are detailed in the attached report by Peter Godwin and include such items as improvements made to our current web site as well as his valuable assistance in conducting some critical surveys (member and system functionality) as we work to improve our membership system and other member and staff support structures.

The Organizational restructuring is progressing very well although taking a little longer than anticipated, due partly to a disruption suffered earlier this year, as well as to the unexpectedly large number of applicants and the processes we are using for key hires. We have made substantial efforts in all our hires to reach out to key parts of our extended community and involve them in the recruitment and interview process. While this takes significantly more time to process, we believe it will result in facilitating the entry of the new hires. We are also well advanced in filling the Communications and CFO positions and fully expect them to be complete before yearend.

2006 Financial Summary

See 2006 Budget vs. Forecast Schedule included at the end of this report for more detail.

Statement of Financial Position (Balance Sheet):

ISOC has a very sound balance sheet, the Cash and Cash Equivalents balance of \$4.1M at the end of September represents cash available for operations of approximately 8 months. This is ahead of our target of six months vs. operating requirements, but again this will come down over the remainder of the year and we expect to end with just over 6 months cash on hand against operations. Our Unrestricted Net Assets have increased by \$2.3M since the end of December 2005.

Statement of Activities (P & L) Summary:

Year to date (through September), our surplus is \$2.3M which is significantly ahead of budget due to the PIR contributions being front-end loaded, although it should be noted that we have also had several new organization members join (Boeing, Verizon, France Telecom, InternetNZ, Supreme Council of ICT Qatar, and the Egyptian Ministry of Communications joined at the Executive level and LACNIC and IIS Foundation joined at the Professional level).

Revenues:

As stated above, we are aggressively pursuing our revenue commitments on all line items, but after a very promising start, we have hit a disappointing period, particularly in the area of Platinum contributions. We had expected an increase in Platinum contributions as part of an extended fundraising activity related to our increased support to the IETF and a change in hosting for the IETF meeting model, but this model took longer than expected to define and the take-up has also been slower than expected. There has been some recent success for 2006, and we are all working it aggressively but there is a possibility that we will not meet the budget on this line item. There has been some recent success; we have secured commitments of \$50K for 2006 and advance commitments of \$175K for the IETF meeting next spring, so we believe the model is appropriate and our efforts will pay off.

ISOC's 2006 budget showed a contribution from PIR of \$5.4 M, although we were later notified (in 2006) that there was an additional \$600K available from the 2005 calendar year surplus. This was reviewed with the Board at the last Board meeting and a review was subsequently held with the ISOC Treasurer and this additional \$600K will be accrued to ISOC as well as the receipt of the budgeted amount of \$5.4M.

The potential shortfall in member revenues is however much more than offset by significant decreases in some other areas of our operating expense, particularly due to longer than expected start-up periods for many of our hires as well as under-spending in external program costs, and of course by the additional contribution from PIR's 2005 surplus of \$600K.

Expenses:

Total expenses are projected to be lower than budget by approx. \$1.2M (12%) due to delays in bringing on the new hires (we received many more resumes than anticipated requiring significant additional screening time and many of the hires had lengthy commitments to current employers resulting in delayed start dates). In addition, other expenses are also coming in below budget often as a result of the delay in bringing new staff on board. The IASA functions are all making good progress, albeit this is proving to be far more work than anyone expected and their revised forecast for 2006 is actually down slightly from budget.

Surplus:

The overall ISOC surplus at the end of September is \$2.3M. This will come down over time and the combination of the under-spending in salaries and the unexpected PIR 2005 excess surplus means we are projecting a surplus of \$1.6M vs the budget of \$284K, an increase of \$1.3M. Again, this will allow us to meet our operating reserve commitment to the Board and to the IETF with respect to six (6) months cash on hand vs operating requirements nearly a year ahead of schedule, and this is a very good and sound place to be. Cash on hand at year-end is forecasted to be approx. \$3.0M meeting the reserve target.

You will find below the 2006 Budget vs. Forecast including actuals through September. We have provided a high level summary above and more detail on the individual programs and progress against commitments is provided in the individual operational reports.

Public Support Percentage:

For the year ending December 31st, 2006, ISOC's tax filing is forecasted to show approximately 40% as our Public Support percentage (reminder it is calculated on a four year look-back 2002 – 2005). 2005 was 58% and was calculated on 2001 - 2004. For the year ending December 31st, 2007, ISOC's tax filing is forecasted to show approximately 29% as our Public Support percentage. As the percentage is slightly under the requirement of 33.33%, we may need to submit a business plan with our 2007 tax filing as part of the alternative "facts & circumstances" test. As has been previously reviewed with the Board, this is not seen as posing a threat to ISOC's Public Charity status, and it is something we are committed to building back up in subsequent years.

Please see the 2006 Budget vs. Forecast Schedule included on the next page for more detail.

2006 BUDGET vs. 2006 FORECAST

	<u>2006 Budget</u>	<u>Actuals through September</u>	<u>2006 Year-End Forecast</u>	<u>Variance</u>
Revenue:				
Platinum	\$ 600,000	\$ -	\$ 300,000	(300,000)
Organization Member	800,000	512,501	700,000	(100,000)
Individual member @ \$75	40,050	4,500	7,500	(32,550)
Individual member donations	-	-	1,500	1,500
IETF Registration Revenues	2,312,500	1,578,427	2,331,500	19,000
ISOC/IETF Sponsorships	-	-	50,000	50,000
NDSS	85,000	71,801	71,801	(13,199)
.org Surplus Contribution	5,465,729	4,931,225	6,060,300	(1) 594,571
Security Expert Initiative	79,000	160,236	160,236	81,236
Miscellaneous Sponsorships	40,000	5,000	-	(40,000)
Interest and Other Misc. Revenue	-	71,616	94,116	94,116
Postel Award	20,000	-	-	(20,000)
Total Revenue	\$ 9,442,279	\$ 7,335,306	\$ 9,776,953	\$ 334,674
Expenses:				
ISOC Salaries & related costs	2,458,943	971,107	1,740,969	(717,974)
ISOC's IETF staff travel/reg fees, misc	60,000	25,707	40,307	(19,693)
RFC Editor	882,121	576,423	881,584	(537)
IETF, IAB Support & D&O insurance	109,500	77,318	129,000	19,500
IETF Secretariat, & Other Mtgs. Exps.	2,000,000	1,646,200	2,353,320	353,320
IETF Trust Expenses (legal & insur.)	25,000	32,796	41,000	(2) 16,000
IASA Supp.(tools, special projects) IAD	485,000	197,256	267,388	(217,612)
Travel, Telephone, Meetings, Misc	160,934	58,966	133,620	(27,314)
Prof'l Services (incl legal) IASA	50,000	13,910	25,000	(25,000)
Prof'l Services (incl legal) ISOC	41,500	74,803	122,339	80,839
Comm/Marketing, Promotion,Shipping	200,000	44,115	65,000	(135,000)
NDSS (excluding salaries)	70,000	55,459	55,459	(14,541)
External Program Costs	1,385,000	475,743	1,085,000	(300,000)
"External" Program - SEINIT	79,000	117,119	117,119	38,119
Funding of Postel Award	20,000	-	20,000	-
Total Direct Expenses	8,026,998	4,366,922	7,077,105	(949,893)
G&A/Governance	1,156,321	707,525	1,000,518	(155,803)
Total Expenses	9,183,319	5,074,447	8,077,623	(1,105,696)
Surplus (Loss)	\$ 258,960 (3)	\$ 2,260,859	\$ 1,699,330 (3)	\$ 1,440,370

Notes:

(1) Approx. \$595K to be accrued from PIR and this has contributed to higher than forecasted surplus.

Approx. \$595K in cash will roll into 2007.

(2) IETF Trust is a separate legal entity, but since it has no income, ISOC is responsible for its expenses.

For simplicity purposes, we showed it on ISOC's forecast, but this understates the budgeted surplus by

\$25K. Total budgeted surplus is \$284K.

(3) Surplus higher than budgeted largely due to PIR increase and delays in bringing new hires on board.

FILE: 2006 Budget vs FC - Nov06.xls