

2007 Year-End Review

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Introduction

2007 has seen the continuation of the restructuring effort begun in 2005 under the Strategic Operating Plan. ISOC's dramatic growth in resources, both in financial and human capital, has transformed the organization in every area of strategy, programs, and infrastructure. ISOC has moved from a small, highly concentrated organization to a geographically dispersed, matrixed management model focused on achieving programmatic objectives.

The Power of Human Capital

Beginning in the latter half of 2006 and extending through 2007, ISOC recruited and engaged senior managers in virtually all areas of its operations, including:

- Director of Education
- Director of Technical Projects
- Director of Memberships (in addition to direct reports in Chapters and Org Membership)
- Director of Communications
- Chief Financial Officer
- Director of Public Policy
- Chief Internet Technology Officer (& addition of a Standards & Technologies function)
- Strategic Global Engagement Chief

In addition, ISOC initiated a key strategic program in the formation of three (3) regional bureaus.

Strengthening Stakeholder Relationships

During 2007, ISOC focused on strengthening its relationships with a wide variety of stakeholders in support of its mission.

- ISOC continues to dedicate itself to support the goals of the IETF, and to furthering the model of support through IASA.
- We strive to increase our outreach to members and chapters, and to seek opportunities to engage them to advance ISOC's vision.
- We recognize the importance of the Public Interest Registry to ISOC's goals, and continue to deepen that relationship.
- Finally, ISOC has actively pursued opportunities to raise its profile and visibility in the global community, to solidify its position as a leader and a champion of the principles of the Internet around the world.

Beyond The Programs

In addition to specific program commitments to fulfil our mission, ISOC:

- Increased member and chapter participation in those areas most essential to the Internet's development, as well as to ISOC and our activities;
- Introduced a strategic Chapter Development program (with the goal to help Chapters reach their full potential within ISOC and become key components of ISOC's activities on global and local levels);
- Developed a multi-year Organization Member Development program;
- Identified a major long-term, multi-partner strategic initiative;
- Strove to create more value for all our members and chapters;
- Deepened our relationship with our partners in the Internet Community;
- Built on our very successful Education and Public Policy activities.

Financial Strength and Managing Change

The Finance Department has sought to support ISOC's management changes and growth in the scope of its programs through the budget and planning process.

A high level financial review is demonstrated by comparisons of the 2007 financial results to both the 2007 Budget and the 2006 financial performance.

Internet Society Statement of Activities and Change in Net Assets For the Year Ending December 31, 2007				
	2007 vs. Budget			2006
	Actuals	Budget	Fav (Unfav) Variance	Actuals
Membership and Program Revenues (excl IETF)				
Organization Membership Revenues	\$ 853,754	1,200,000	(346,246)	\$ 1,087,152
Individual Member Dues & Donations	7,125	15,000	(7,875)	5,550
Miscellaneous Sponsorships/Postel Award/NDSS	141,435	281,225	(139,790)	213,608
Total Member/Program Revenues (excl IETF)	1,002,314	1,496,225	(493,911)	1,306,310
ISOC Department and Program Expenses (excl IETF)	6,402,227	9,516,476	3,114,249	3,877,472
IETF/IASA				
Revenues	2,895,377	2,802,500	92,877	2,323,849
Expenses (including G&A)	(4,291,810)	(4,127,607)	(164,203)	(3,578,280)
Subtotal IETF/IASA	(1,396,433)	(1,325,107)	(71,326)	(1,254,431)
PIR and Other Revenue				
.Org Contribution (quarterly)	9,700,000	9,700,000	-	6,060,300
Interest/Other Misc. Revenue/Currency Fluctuations	227,302	93,000	134,302	90,076
Subtotal PIR/Other	9,927,302	9,793,000	134,302	6,150,376
ISOC Surplus (Loss) or Change in Net Assets	\$ 3,130,956	\$ 447,643	\$ 2,683,313	\$ 2,324,783

(Financial Information is preliminary, pending finalization of year-end financial statements and completion of the 2007 audit. IETF figures are preliminary, pending final Secretariat accounting from the December IETF meeting-Vancouver.)

Membership and Program Revenues

Revenues from Organization Members and program sponsorships did not meet expectations for 2007. In addition, these results showed a decrease from the results of 2006. A portion of this shortfall and decline are explained by year-end timing of the contributions from some of ISOC's significant donors, including approximately \$165,000 in contributions scheduled for receipt in 2007, but received shortly after the end of the fiscal year 2007. In addition to these timing issues, ISOC fell \$100,000 short of its Platinum membership goal, and had fewer event sponsorships (excluding the IETF) than anticipated.

ISOC Expenses

ISOC increased its year-over-year spending (excluding the IETF) from \$3.9 million in 2006 to \$6.4 million in 2007 (a 65% increase). Even so, ISOC fell short of its 2007 budget for expenditures of \$9.5 million, which would have represented a 145% growth in expenditures.

The largest single impact was created by a conscious decision to proceed slowly with the Major Strategic Initiative and Smaller but Substantive Initiatives (\$1 million impact). The remaining shortfall against budget occurred in (a) personnel costs as several key positions were filled late in the year, and (b) programs such as the User Centric Internet (UCI) that were deployed more slowly than expected (largely as a result of these same delays in hiring).

IETF/IASA

IETF meeting registration fees fell short of the plan, as attendance continued to decline for the three meetings in 2007. However, the one-time \$100 fee increase for Vancouver (\$110,000) helped offset a portion of this loss. In addition, ISOC obtained sponsorships for all three IETF meetings, and the NOC hosting model increased the level of funding secured for IETF operations (offset, however, by increased NOC hosting costs in this full-service model).

Expenses were held below the budget in many expense areas, such as RFC Editor and copy services, Secretariat costs, and IETF/IAB support costs. At the same time, the IETF incurred increases in other key expense areas. Most notably, meeting costs continue to rise, representing increased site venue and food costs. In addition, NOC costs under the hosting model added approximately \$240,000 to expenses (approximately equalling and offsetting funds generated from NOC host contributions).

Largely as the result of the lower meeting attendance, ISOC's contribution to the IETF is preliminarily shown to be \$71,000 more than budget (the final figures for Vancouver are expected to bring this budget overage down to approximately \$50,000).

PIR Contribution

PIR's contribution to ISOC continues to expand, growing from \$6 million in 2006 to \$9.7 million in 2007 (a 60% increase). This contribution will rise to \$13 million in 2008.

ISOC Surplus and Change in Net Assets

ISOC realized a positive surplus from all activities in 2007 of \$3.5 million. This surplus is greater than the budget for 2007, the result of lower departmental and MSI spending as noted above. This surplus will provide financial stability as ISOC continues to increase its level of program expenditure (see analysis of Operating Reserves below).

Cash and Net Assets

In both 2006 and 2007, ISOC's cash reserves improved substantially. In the span of those two years, the company increased its unrestricted cash balance by \$4.2 million (to \$5.7 million at the end of 2007).

Under its Operating Reserve Policy, ISOC strives to maintain a cash reserve sufficient to fund six (6) months of operations, plus meeting guarantees for the next two IETF meetings. The current cash reserves represent 9.6 months operating reserves when measured against the 2007 expenditure level. However, given the planned increase in expenditure levels for 2008, these reserves represent only 7.7 months of operating reserves on a forward looking basis.

Public Support Test

ISOC continues to monitor and forecast its compliance with the Public Support Test, one test by which the U.S. taxing authority measures an organization's ability to maintain a status as a Public Charity.

In 2008 (in the tax return filed for 2007), ISOC will have fallen below the 33.33% Public Support Test limit, and will file a "facts and circumstances" report required to maintain its Public Charity status. Several tax advisors have assured ISOC that dropping below the 33.33% test poses no serious risk to ISOC's Public Charity status as long as we file and pursue a plan to return to the minimum level. However, should ISOC fall below a 10% level in this test, ISOC will need to pursue other alternatives to maintain its status. The 2008-2010 Plan (see page 45 of <http://isoc.org/isoc/general/trustees/docs/dec2007/budget.pdf>) included a sensitivity analysis through the tax filing due 2014. A full review of the Public Support Test is scheduled for the summer meeting of the Board, as indicated in the Board Work Plan.