

STATEMENT OF FINANCIAL POSITION

	31 DECEMBER 2006	31 DECEMBER 2005
ASSETS		
Cash and cash equivalents	\$3,787,683	\$1,451,012
Endowment—Public Interest Registry	1,725,297	2,540,338
Accounts receivable	153,988	100,178
Due from Public Interest Registry	622,439	-
Prepaid expenses	133,211	28,435
TOTAL CURRENT ASSETS	6,422,618	4,119,963
Furniture, equipment, leasehold (Net)	220,476	203,545
OTHER ASSETS		
Deposits	48,213	8,213
TOTAL ASSETS	\$6,691,307	\$4,331,721
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$859,079	\$199,520
Accrued salaries and benefits	275,419	111,612
Security deposit	-	8,083
Deferred revenue	270,387	235,826
Endowment due to Public Interest Registry	891,964	873,672
TOTAL CURRENT LIABILITIES	2,296,849	1,428,718
OTHER LIABILITIES		
Endowment due to Public Interest Registry	833,333	1,666,666
Security deposit	4,035	4,035
TOTAL LIABILITIES	3,134,217	3,099,414
NET ASSETS		
Unrestricted	3,526,925	1,185,001
Temporarily restricted	30,165	47,306
TOTAL NET ASSETS	3,557,090	1,232,307
TOTAL LIABILITIES AND NET ASSETS	\$6,691,307	\$4,331,721

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 DECEMBER 2006

(WITH SUMMARISED TOTALS FOR THE YEAR ENDED 31 DECEMBER 2005)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS 2006	TOTALS 2005
REVENUE				
Programme support	\$6,060,300	–	\$6,060,300	\$3,400,000
Organisation Members and Platinum sponsors	1,087,152	–	1,087,152	994,621
Contributions	3,575	132,459	136,034	79,912
Individual Member dues	5,550	–	5,550	5,100
Interest/dividend income	100,821	206	101,027	27,102
IETF meetings and miscellaneous IETF revenue	2,323,849	-	2,323,849	-
Other meetings, programme revenue, and miscellaneous revenue	77,574	-	77,574	87,344
Net assets released from restrictions	149,806	(149,806)	–	–
TOTAL REVENUE	9,808,627	(17,141)	9,791,486	4,594,079
EXPENSES				
Direct programme costs	6,338,287	–	6,338,287	3,459,193
General and administrative	1,108,416	–	1,108,416	841,502
Postel Award	20,000	–	20,000	20,000
TOTAL EXPENSES	7,466,703	–	7,466,703	4,320,695
Change in net assets	2,341,924	(17,141)	2,324,783	273,384
Net assets, beginning of year	1,185,001	47,306	1,232,307	958,923
NET ASSETS, END OF YEAR	\$3,526,925	\$30,165	\$3,557,090	\$1,232,307

All figures cited in U.S. dollars.

NOTES ON FINANCIAL INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

The Internet Society was incorporated as a nonprofit organization in the District of Columbia on 11 December, 1992 to provide leadership in Internet-related standards, education, and public policy. The Society is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Internet Society is not a private foundation.

Cash and Cash Equivalents

For purposes of cash flows, the Internet Society considers all cash on hand, cash in banks, and cash invested with a short-term maturity of three months or less to be cash equivalents.

Classification of Net Assets

Net assets of the Internet Society are reported in two self-balancing groups.

- *Unrestricted net assets* represent funds that are available for the support of the Internet Society's operations. They include contributions received without donor-imposed restrictions.
- *Temporarily restricted net assets* represent resources that have been donated and are to be used in accordance with the stipulations set by the donor.

Membership Dues

Deferred revenue consists of membership dues collected in advance. Membership dues are recorded as deferred revenue upon receipt and are recognized as revenue ratably over the period to which the dues relate.

Platinum Sponsors

Platinum donations are recognized when committed by the donor. The revenue is recorded as temporarily restricted support, since the donor stipulates the use of the donated funds. When a donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

RELATED-PARTY TRANSACTION

On 7 October, 2002, the Internet Society formed a separate but related entity known as Public Interest Registry (PIR) to operate the .ORG registry. PIR was incorporated as a Pennsylvania nonprofit corporation with the Internet Society as its sole member. Soon after incorporation, PIR applied to the Internal Revenue Service for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. In July 2004, PIR received a favorable ruling from the IRS and was granted tax-exempt status. In January 2003, the Internet Society

became custodian of a USD 5,000,000 grant given to them on behalf of PIR. The grant is to be distributed evenly in the amount of USD 833,333 per year plus accrued interest through 2008. The funds are to be used to establish an endowment to fund future operating costs of PIR. If PIR loses its status as the operator of the .ORG registry, the remaining endowment will be transferred to the successor registry operator.

In any year in which PIR creates a surplus over a predetermined reserve for operating expenses, the surplus is transferred to the Internet Society in support of its mission. In 2006, this surplus provided over sixty-one percent of the Internet Society's revenue.

Internet Administrative Support Activity

In 2005, the Internet Engineering Task Force (IETF), a large, international community of network designers, operators, and researchers responsible for developing and defining the standards and protocols that make up the Internet, restructured their support operations within the Internet Society. The Internet Society has always considered itself the organizational home of the IETF; however the Secretariat function and other administrative duties were performed by other organizations. In early 2005, as part of a long-term

restructuring plan, the IETF created an IETF Administrative Support Activity (IASA), to replace the other organizations and formally structure all administrative support functions within the Internet Society.

In December 2005, the IETF, the Internet Society and the Corporation for National Research Initiatives (CNRI) created the IETF Trust to hold existing and future intellectual property used in connection with the Internet standards process and its administration. The trust was organized and operates so that it may qualify for exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. During 2006, the Trust had no income of its own and all its expenses were funded by the Internet Society. The creation of the Trust and transfer of the intellectual property was the last step in the restructuring plan of the IETF.

AWARDS

The Jonathan B. Postel Service Award was established by the Internet Society to honor those who have made outstanding contributions in service to the data communications community. The USD 20,000 Award is given annually and is named after Dr. Jonathan B. Postel, who embodied technical expertise, extraordinary leadership, and service to the community over his thirty-year career.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 consist of:

	2006	2005
Security Expert Initiative (EU)	\$ —	\$47,232
Jonathan B. Postel Service Award	—	74
Postel Network Operator's Scholarship Fund	30,165	—

NET ASSETS RELEASED FROM RESTRICTION

Net assets which were released from restrictions by incurring expenses, which satisfied the restrictions specified by the donor:

	2006	2005
Security Expert Initiative (EU)	\$149,232	\$145,859
Jonathan B. Postel Service Award	574	20,000

All figures cited in U.S. dollars.