

AGENDA ITEM: 2007 - 2009 Budget and Financial Presentation

2007 - 2009 Programs and Budget

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

Part I – Strategy

This 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. A review of this document showed that the material was still relevant and hence no changes have been made to it. It can be found at: <http://www.isoc.org/isoc/SOP.pdf>.

Part II – Programs and Budget – 2007 - 2009

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 will be published as Part II – 2007 following Board approval.

A Medium-Term View - 2007 – 2009

2007 – 2009 will be key years in the growth and refinement of ISOC's place in the world. All the critical elements are now in place and we simply need to have the foresight and sharp execution to bring it all together. For the first time ever, we have the financial resources, the credibility, the goodwill of the Internet community, the imagination and the drive to make this a reality. We are restructuring the organization (quite rapidly) and are clearly in a position to make a significant difference to the development of the Internet across the world.

A number of elements will contribute to this: we continue to strengthen our relationship with the IETF, and to build on our very successful Education and Policy activities in their own right. At the same time these are all serving as very good vehicles for increasing member and chapter participation in those areas most critical to the Internet's development (and most in need of support) as well as increasing member and chapter participation in ISOC and in our activities. We are in the early stages of introducing a strategic multi-year Chapter Development program. The goal is to help Chapters reach their full potential within ISOC and become key components of ISOC's activities on global and local levels. If this is as successful as we believe it can be, it will strengthen and extend ISOC's network in a way that is truly hard to imagine. You only need to spend a little time with members who are engaging with us in our education and policy activities to appreciate how exciting a time this is for them, for ISOC and what it can mean for the Internet if we focus, work together, and choose our activities wisely.

Apart from these "more traditional" activities, we are also engaging in identifying a very small number of (1 or at most 2) major, multi-year and very likely multi-partner strategic initiatives. As stated in my report to the Board in July and again in September: "ISOC sits at the heart of Internet technological developments and at the intersection of Internet technology and policy; there are large complex problems looming in the future evolution of the Internet, and there are huge gaps in its accessibility and deployment, as well as many other complex, and sensitive policy subjects. ISOC is extremely well positioned to make a significant and strategic difference. I believe our efforts here should be in the category of: "By 2015 XXX will have been accomplished due to the Internet Society's XXX Program."

Each one of the attached reports builds on the Strategic Operating Plan and the opportunities outlined above, with a more detailed focus on the activities in 2007. Many of the programs cut across pillars as we work to leverage all

our activities to the fullest extent possible, hence the program costs of the various initiatives are shown in the attached financial schedules rather than in the department/pillar submissions.

Public Policy

The Internet Society's public policy programs for 2007 through 2009 will build on a sustained leadership position in the Internet governance space and an expectation among the ISOC community and beyond that ISOC will play a growing central role on key issues of import to the Internet. ISOC's public policy programs will broaden and deepen for the 2007 to 2009 period to address some unprecedented challenges facing the Internet of today and tomorrow. To address these challenges, ISOC will be rolling out a major new strategic policy program under the umbrella of the "User Centric Internet campaign" to address those existing and future efforts that are seeking to shape (or re-shape) the Internet and what it represents.

We will also significantly broaden our Public Policy presence over the 2007-2009 period, through a range of initiatives. Importantly, we will be implementing a series of outreach actions designed to maximize our policy presence both inside the ISOC community - through a greater level of engagement with Chapters and the overall membership - and external to the ISOC and Internet communities. We will drive our policy leadership from an international level to better incorporate a more regional, national and effective local level. In addition, we will build upon our regional and local presence and activities through the Regional Bureaus and the Regional Policy Advisory Groups.

Finally, we will bring another area to the fore in the period 2007 – 2009, that of policy and education programs in the developing world. There are a number of "small but substantive" intersect areas that ISOC will leverage with a likely focus on security, access, and multilingualism and local content, as these issues are of critical importance to Internet take-up and usage. These will be the core focus areas during the period 2007 – 2009 and Matthew and Constance have provided additional material for review in the attached document.

Education

2007 – 2009 will be key years in the growth, refinement, and improvement of ISOC's technical and policy education activities. According to the Strategic Operating Plan (SOP), which our work will continue to be guided by, ISOC's education mandate is:

- To provide and distribute information related to the Internet and its technologies to individuals and to public and private organizations, including governments,
- To provide assistance with Internet deployment to people in technologically developing countries, and
- To promote the development of self-sustaining communities able to effectively deploy and exploit local and regional education and training resources.

2007 will see the continuance and refinement of ISOC's traditional technical education programs and set the ground work for future long term education goals. The work will focus on the following five areas:

1. *Expanding and Refining the Delivery of Technical Training Programs, and*
2. *Improving Technical Information Distribution, as one of ISOC's primary education mandates is to distribute information about the Internet and its technologies.*
3. *Identifying Additional Opportunities in Technical and Policy Education that ISOC is Uniquely Skilled and Positioned to Fulfill* - working with our chapters, organization members, Regional Bureaus and other members of the community to identify new or supplementary education activities that can be accomplished in 2007 and beyond.

4. *Modeling a Global Strategy for Policy Education* - As part of its 2007 – 2009 education objectives, ISOC will undertake a strategic modeling exercise to determine the best mechanisms for educating policy makers on Internet issues. Internet education needs for policy makers are not consistent throughout the world. Some regions and countries require more in-depth information on “Internet basics,” while others require more focused information on newly emerging issues, and there are of course cultural and political considerations as well.
5. *Building ISOC’s “Education and Capacity Building Identity” in the International Information and Communications Technology (ICT) Development Sphere* - In 2007, ISOC will seek to heighten its coverage, visibility, and participation in international forums that focus on ICT development, education, and policy

Karen and Mirjam have provided significant additional material for review in the attached document.

Membership and Chapters

ISOC is entering an exciting time as it relates to membership and chapters. There is a lot of opportunity to grow the membership, to provide new member programs and services and to attract new sources of funding and sponsorship for all of ISOC’s programs in 2007-2009.

Growing membership requires that we fully engage organizations, members and chapters, and we are committed to doing this as rapidly and completely as possible. It also requires raising ISOC’s visibility within the global Internet community, as well as amongst those outside of it, or those who don’t see themselves as part of the Internet community, but benefit from the Internet and/or our activities. To this end, we are establishing a Chapter Development Program to further support their increased participation in all the activities of ISOC; at the same time we are working on a complete review of all our membership and fundraising activities.

In addition, we will be evaluating rolling out a major fundraising or endowment campaign. This will require further study and further discussion amongst the staff and board. If appropriate and approved our goal would be to be prepared to launch Q1 2008 at the latest.

Terry Monroe and David McAuley have provided significant additional material for review in the attached document, and given the significant amount of restructuring that is being undertaken, 2007 will clearly be a year of significant rebuilding in the Membership department and across our membership infrastructure.

Standards

IETF Administrative Support Activity (IASA): see report submitted by the IAOC for more specifics

IASA continues to make great progress against all its goals. As previously reviewed, the IETF Administrative Oversight Committee (IAOC) took over an operation that had been somewhat neglected during the lengthy transition, hence there was a backlog in virtually every part of the IASA structure. Many of the operations were undocumented, and while there is still a lot to be done, very significant progress has been made. The IAOC has been aggressive and focused on setting expectations, managing to budget, instituting tight controls on expenses, and it will continue in this vein. Each of the high cost aspects of the support process has gotten attention and will continue to do so. We have completed our evaluation of new hosting models for IETF meetings, as well as ways to better manage the network deployment and control network costs for meetings, and this will be rolled out for the first time in the spring of 2007. The RFC Editor contract was put out to competitive bid this year and negotiations are nearly complete. The new contract will be effective January 1, 2007 and this is a significant step in improving quality and costs of the publishing activities of the IETF. Work on an IANA SLA is nearly complete and these are just a few examples; every aspect of the operations has gotten scrutiny and the budget will continue to be monitored closely.

NeuStar Secretariat Services (NSS) provides meeting and secretariat services to the IETF and they have done a good job of playing catch-up (in some cases such as IETF Meetings, they have done two years worth of work in one, and it was a start-up year as well). NSS was awarded this contract for two years and it will be put out to competitive bid in 2007 and be (re)-awarded effective 2008.

Finally, the projected budget increases requested from ISOC are flat or decreasing slightly despite the need to continue investments in some key areas such as tool development. More detail is provided later in this report and in the IASA section. Considering the magnitude of the uncertainty in taking over the Foretec/CNRI operation, this is quite an achievement. Even so, we do not expect these increases to continue indefinitely, and we will continue to focus on cost control in combination with ensuring the IETF gets the support they require.

Public Interest Registry (PIR)

The Public Interest Registry (PIR), the home of the .ORG Top Level Domain continues to provide significant funding to ISOC to carry out our mission. The projected growth is quite achievable and we look forward to increasing the collaboration between organizations as it relates to enhancing both organizations performance to our individual public service goals.

In summary, we are excited about building even more aggressively on our significant accomplishments to date, as well as increasing the involvement of our members, chapters and partners to further leverage our vision and fulfill our purpose as completely as possible.

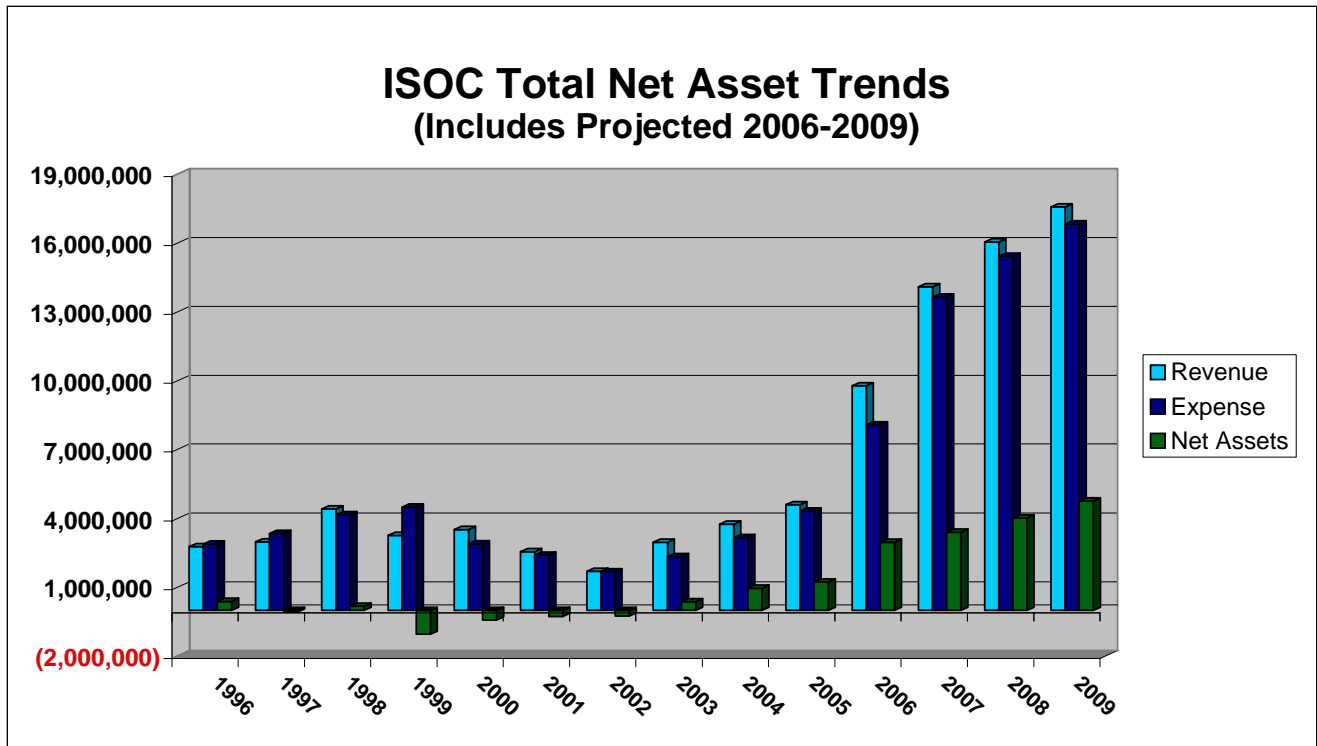
The financial schedules for 2007 – 2009 follow and explanations are given for the key line items with additional supporting documentation to be found in the department/pillar submissions.

FINANCIAL REVIEW – 2007 - 2009

2006 – 2009 Balance Sheet and Net Asset Projections

ISOC has a very sound Balance Sheet. For a non-profit organization like ISOC, to operate to sound accounting principles we should have a min. of 6 months of operating expenses in unencumbered cash reserves as part of our net asset balance. Staff conducted a review of current Best Practices and reviewed our findings with the Treasurer and we believe this continues to be an appropriate reserve measure. Six (6) months of an Operating Reserve Target for 2007 would be approx. \$4.3M cash based on the 2007 expenses including the commitment we made to the IETF in RFC 4071 to cover in addition twice the recent average for IETF meeting contract guarantees. For 2008 the amount required will increase slightly to \$4.6M to keep current with expected expense levels. Our 2006 forecasted year end cash balance is expected to be approx. \$3.3M (the reserve target was \$2.9M) so the increase required in 2007 is quite achievable, and the 2007 – 2009 budgets have been built on this requirement. It should be pointed out that our commitment to the ISOC Board and to the IETF was that we would attain these levels by the end of 2008 so we are well ahead of schedule (which is appropriate as it is a much more sound position to be in given our increasing expense levels).

Our 2006 year-end net worth is forecasted to increase by approx. \$1.7M to \$2.9M with further significant increases during the period 2007 – 2009 where by year end 2009 we are expecting to be at \$4.8M.



INTERNET SOCIETY
2007-2009 High Level Financial Plan

Revenue:

	<u>YE F/C</u> <u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Platinum	\$ 300,000	\$ 400,000	\$ 500,000	\$ 600,000
Organization Member	700,000	800,000	1,000,000	1,200,000
Individual member @ \$75	7,500	10,000	11,250	13,125
Individual member donations	1,500	5,000	6,000	6,500
IETF Registration Revenues	2,331,500	2,477,500	2,477,500	2,665,000
ISOC/IETF Sponsorships	50,000	325,000	325,000	325,000
NDSS	71,801	111,225	115,000	120,000
.org Surplus Contribution	6,060,300	9,700,000	11,000,000	12,000,000
Security Expert Initiative (SEINIT)	160,236	-	-	-
Misc. Sponsorships	5,000	150,000	157,500	165,375
Interest Income & Other Misc. Revenue	89,116	93,000	97,650	102,533
Postel Award	-	20,000	20,000	20,000
Total Revenue	\$ 9,776,953	\$ 14,091,725	\$ 15,709,900	\$ 17,217,533

Expenses:

ISOC Salaries & related costs	(2) 1,740,969	3,881,632	4,200,000	4,600,000
ISOC's IETF Staff Travel/reg.fees & misc.	40,307	43,600	50,000	55,000
IETF Journal - ISOC	-	35,500	37,500	40,000
IETF/IASA Budget expenses	(1) (2) 3,697,292	4,040,350	4,057,056	4,244,180
Travel, Telephone, Meetings, Other Misc.	133,620	415,000	435,000	460,000
Prof Svcs/Consultants/Legal - ISOC	122,339	259,804	273,000	280,000
Comm/Marketing, Promotion, Shipping, Printing	65,000	296,290	350,000	400,000
NDSS (excluding salaries)	55,459	80,700	85,000	90,000
Security Expert Initiative (SEINIT)	117,119	-	-	-
External Programs	1,085,000	1,917,000	1,900,000	2,000,000
Smaller Substantial/Cross Pillar Initiatives	-	200,000	200,000	200,000
Major Strategic Initiative	-	1,000,000	2,000,000	2,500,000
Funding of Postel Award	20,000	20,000	20,000	20,000
Total Direct Expenses	7,077,105	12,189,876	13,607,556	14,889,180
G&A/Governance	(2) 1,000,518	1,454,206	1,621,637	1,744,124
Total Expenses	8,077,623	13,644,082	15,229,193	16,633,304
Surplus (Loss)	\$ 1,699,330	\$ 447,643	\$ 480,707	\$ 584,229

Notes:

- (1) Even though the IETF Trust is a separate legal entity; it has no income of its own, but receives all its support from ISOC; therefore, we have combined its expenses with the ISOC budget. Its costs are included with the IETF/IASA budget items.
(2) Fully loaded salaries are included in the three budget lines preceded by (2).

Additional detail on line items in the 2007 – 2009 budget

Total Revenues:

Total Revenues are expected to increase quite significantly over the next three years due to an increase in the .ORG contribution, which in turn increased due to both the renegotiation of the contract with Afiliias as well as market growth. 2007 will see a larger increase than later years due to the first time impact of the renegotiated contract with Afiliias. All the years below include the IETF registration fees that are collected by ISOC on the IETF's behalf.

\$ M USD	2006 F/C	2007 Bud	2008 Bud	2009 Bud
Total Revenues	9.8	14.1	15.7	17.2
% growth		44%	12%	10%

Additional detail is provided below on the other line items:

Organization Member Revenues:

ISOC Member related revenues are built on slightly aggressive historical growth rates (20% 2007 over 2006 increasing to 25% growth in 2008), yet when combined with the additional fundraising tasks for the IETF and misc. program sponsorships it represents a growth of 59% in 2007, returning to 18% in 2008 once the initial impact of the increased fundraising support to the IETF is built into the base. Management believes this is achievable, as the IETF meeting model has been changed/expanded to support a higher level of fundraising. The model was expanded because 1 - it is believed that the current model is not sustainable in the long-term and, 2- it was specifically expanded to facilitate getting sponsorships from more sources. The results of this model are already paying off as we have recently signed a sponsor for the IETF welcome reception at the San Diego IETF meeting (thanks go to Afiliias) and have verbal commitments from two sponsors for a total of \$175K to host the Prague meeting in the spring of 2007. These actions collectively reduce the funding necessary for the IETF from ISOC's traditional sources and moves them to a more appropriate cost/benefit model for the IETF. More such activities are planned for the future.

While the requirement to support the IETF overall is increasing 6% on average over the period 2007 – 2009 (with the largest increase in 2007 at 9%) we have been able to hold the contribution required from ISOC's traditional revenue sources virtually flat or even slightly decreased in 2007. The IASA activities and funding requirements are reviewed separately in the IASA section, so let me simply review here the trends for support from ISOC:

\$K	2006 F/C	2007 Bud	2008 Bud	2009 Bud
ISOC's IETF sponsorship	50	325	325	325
ISOC other sources	1,417	1,325	1,405	1,479
ISOC's total % cont'n to IETF	39%	40%	41%	40%

As mentioned above, we are looking at additional activities to fundraise for the IETF using a direct IETF related cost/benefit, and more information will be forthcoming soon.

IETF Trust

Note: the figures above include financial and legal support from ISOC to the IETF Trust and the IETF Trust is reviewed elsewhere.

\$K	2006 F/C	2007 Bud	2008 Bud	2009 Bud
IETF TRUST expenses	41	24	26	29

Individual Member Revenues

Individual Member revenues are proving quite difficult to build up despite significant efforts on the part of staff. This whole program will be reviewed as part of the Chapter Development Program and so we have forecasted quite conservative growth. More details on activities to date and current membership is included in a separate review.

The .Org contribution is based on a thorough review by the PIR Board, and is consistent with past performance and past forecasts. If more information is required, we can certainly review it in our closed session. This does reflect the new agreement negotiated with Afiliis earlier this year and includes the assumptions present in the current negotiations between PIR and ICANN.

Misc. sponsorships:

This category includes sponsorship and fundraising activities for ISOC programs that will be undertaken jointly by the Pillar Directors and the Membership Department.

Network Distributed Security Symposium (NDSS) Revenues:

NDSS revenues are showing an increase of 54% 2007 over 2006 and reflects a strengthened commitment from the NDSS Steering Committee to increase attendance and sponsorships.

Security Expert Initiative (SEINIT) Revenues:

Security Expert Initiative (SEINIT) was a project funded by the EU's 6th Framework program and ISOC was a member of a consortium. The project was successfully completed in 2006.

EXPENSES:

ISOC **salary expense** 2007 and beyond shows a significant increase over 2006 (more than doubling). The headcount growth between 2006 and 2007 is forecasted to be 3.5 FTE's and the increase in the salary line is due to carrying full year costs for all the hires that were made in 2006 rather than partial years. The growth in headcount in 2007 will be in the Chapter Development Program where an additional senior hire is planned, as well as engaging an additional senior Policy/Education Manager and an Events manager. In addition, we will add a shared resource in the book keeper/systems administration role in support of our increased membership activities. Terry Weigler will move into a full-time office manager position as a result of increased support requirements due to the increase in staff overall.

	2005	2006 Yr End	2007	2008	2009
Full-time Equivalent (FTE) Headcount	11.6	22	26	28	30
Volunteer VP's	2	1	-	-	-

IETF Administrative Support Activities (IASA) expenses are covered in the IASA section so I will not repeat them here.

Professional Services, Consultants, Legal and Communication and Marketing support are rising from a forecasted \$190K to approx. \$550K in 2007 mainly due to the review and expected revamping of all our Membership activities.

The **External Programs** line is the cost of the programs ISOC funds or runs excluding any staff salaries. ISOC follows a project accounting methodology and we track all costs (salaries, phone, travel, misc. etc. by project (cost center accounting methodology). The program costs are detailed on a separate financial schedule and the rationale for the investments is included in the individual departmental (pillar) submissions.

Major Strategic Initiative – we expect to identify one or maximum two very strategic, long-term projects and the funds in this line reflect the amount of funds we are proposing be allocated to these projects. We fully expect to bring in other partners and sources of support but it is too difficult to identify or quantify these without additional information.

Small Substantial/Cross Pillar Programs – we have allocated some additional funds based on the outreach process we have begun with our community with respect to soliciting suggestions for other areas where ISOC could have an impact. In addition, staff have identified some areas where we would like to build some additional programs dependent upon what happens with the Major Strategic Initiatives. These cross-pillar activities are expected to be in the areas of security, multi-lingualism and content and/or access.

G&A and Governance expenses are increasing 2007 over 2006 by approx. 45% due largely to \$230K of amortization expense from the development of tools for the IETF hitting in 2007, as well as additional resources in the G&A space (a CFO and book-keeper/systems admin.), and to an increase in the depreciation expense due to a donation of equipment badly needed by the IETF from Cisco. The individual line items are detailed quite thoroughly below so I will not cover them any further here.

General & Administrative/Governance Summary**2007 Budget & 2008-2009 Projections**

	2006 Budget	2006 Forecast	2007 Budget	2008 Projection	2009 Projection
GOVERNANCE COSTS					
Legal fees	\$ 20,000	\$ 5,000	\$ 5,500	\$ 5,775	\$ 6,064
Directors & Officers Insurance	5,000	3,800	4,000	4,200	4,410
Board Mtgs., travel & election exps.	73,000	97,755	107,500	112,875	118,519
Board telephone & committee calls	28,000	20,100	22,110	23,216	24,376
Misc (postage, copying, etc.)	5,000	5,675	5,959	6,257	6,570
Total Governance	\$ 131,000	\$ 132,330	\$ 145,069	\$ 152,322	\$ 159,938
G & A COSTS					
Legal, Insurance & Accounting	\$ 35,000	\$ 72,000	\$ 79,200	87,120	95,832
Repairs & Maintenance	30,000	23,800	26,180	28,798	31,678
Travel	6,000	7,207	7,928	8,324	8,740
Misc. Consultants	-	23,292	5,000	5,000	5,000
Depreciation and Amortization	165,668	88,220	190,982	226,349	253,046
Rent	158,000	161,216	166,052	171,034	176,165
Telephone	20,000	12,200	13,420	14,091	14,796
Materials & Supplies	35,000	21,276	25,531	28,084	30,893
Bank, Credit Card and Payroll fees	14,000	17,500	19,250	20,213	21,223
Computer fees, IT/outsourcing fees	117,250	86,666	110,300	115,815	121,606
Office expenses	30,000	40,422	54,506	63,232	72,393
Misc (postage, copying, employ train)	45,000	40,555	75,083	78,837	82,779
	\$ 655,918	\$ 594,354	\$ 773,433	\$ 846,897	\$ 914,150
Less: Sublease-PIR & NET GAIN	(57,490)	(70,912)	(59,221)	(61,005)	(62,842)
Less: PIR Facilities Agreement	-	(40,254)	(30,000)	(30,000)	(30,000)
Total G&A (Before Salaries)	\$ 598,428	\$ 483,188	\$684,212	\$755,892	\$821,308
Total Gov and G&A	\$ 729,428	\$ 615,518	\$ 829,280	\$ 908,214	\$ 981,247
Add: G& A/Gov Salaries	426,893	385,000	624,926	713,423	762,877
Total Gov/G&A	\$ 1,156,321	\$ 1,000,518	\$ 1,454,206	\$ 1,621,637	\$ 1,744,124

General & Administrative/Governance Summary

2007-2009 Notes

2006 Notes:

Projected G&A/Gov is 13% lower than budget primarily due to the delay in bringing in new staff

2007 Notes:

- (1) Depreciation increased significantly due to \$100K of Cisco equip. donated to ISOC plus amortization of \$230K of IETF tools dev't, and expected capitalization of improvements to ISOC membership sys. and new phone system.
- (2) PIR facilities charge. They expect to use 50% of the previous "facilities agreement" approx. \$2,500 per month.
- (3) Budget provides for the salary of a CFO plus add'l. bookkeeping/administrative support, plus a reclassification of a current employee from 100% Chapters/IM support to 100% G&A as office manager in 2007.

2008 and 2009 Notes:

Includes normal increases over prior years.

File: 2007 Final Budget Nov 06.xls

Financial Summary

In closing, ISOC has a very healthy Balance Sheet. Our budgets and targeted surplus for the period 2007 – 2009 are built on maintaining a minimum of 6 months of operating expenses in unencumbered cash reserves as part of our net asset balance. Our 2006 year-end net worth is forecasted to increase by approx. \$1.7M to \$2.9M with further significant increases during the period 2007 – 2009 where by year end 2009 we are expecting to be at \$4.8M.

We are excited by the opportunities and challenges we see in front of us and look forward to building even more aggressively on our significant accomplishments to date. We particularly look forward to working more closely with all our members, chapters and partners to further leverage our vision and fulfill our purpose as completely as possible.

The department/pillar submissions follow where you will find supporting documentation on our plans.