

Audit Committee Report to the Board of Trustees of the Internet Society

Submitted by Glenn Ricart, Committee Chair and Treasurer
March 15, 2008

A telephonic meeting of the Audit Committee of the Internet Society (ISOC) was held on December 19, 2007. In attendance were Glenn Ricart, ISOC's Treasurer and Chair of the Audit Committee, Patrik Fältström and Ted Hardie as members of the Audit Committee, and as invited guests Lynn St. Amour, ISOC's President and CEO, and Greg Kapfer, ISOC's Chief Financial Officer.

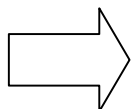
Amendment to the Charter of the Audit Committee

As the first order of business, Dr. Ricart called upon the Committee to review its Charter, as is required of the Committee annually. The committee noted the addition of a Chief Financial Officer in August, and resolved to amend the Charter to delegate to the CFO those responsibilities formerly assigned to the Director of Finance. Such a Charter amendment requires the action of the Board of Trustees. Therefore, the Audit Committee passed the following resolution:

Resolution: Amendment of the Audit Committee Charter.

RESOLVED: The Audit Committee recommends that the Audit Committee Charter (the "Charter") be amended and restated to delegate the responsibilities currently granted to the Director of Finance to ISOC's Chief Financial Officer, and to submit this resolution to ISOC's Board of Trustees for ratification at the Board's next regularly scheduled meeting.

Therefore, the Audit Committee presents the following resolution to the ISOC Board of Trustees for its action:



RESOLVED: That the Audit Committee Charter (the "Charter") be amended and restated to delegate the responsibilities currently granted to the Director of Finance to ISOC's Chief Financial Officer.

Approval of Independent Auditors

Dr. Ricart then called for discussion regarding Management's recommendation that the firm of Grant Thornton be appointed as ISOC's independent auditors beginning with the audit of ISOC's 2007 financial statements. The Audit Committee passed the following resolution:

Resolution: Appointment of Grant Thornton as ISOC's Independent Auditors for 2007.

RESOLVED: The Audit Committee approves the appointment of Grant Thornton as ISOC's Independent Auditors for 2007, including preparation and review of ISOC's annual tax returns.

This resolution does not require confirmation by the Board of Trustees.

Approval of Non-Audit Reviews by Grant Thornton

ISOC's CFO requested that management be empowered to solicit proposals from its newly appointed audit firm to perform certain non-audit reviews. Audit Committee approval is required for employment of Grant Thornton for non-audit functions, according to the Charter. Mr. Kapfer presented the scope of the intended reviews. The Audit Committee approved the following resolution:

Resolution: Approve engagement of Grant Thornton for non-audit services.

RESOLVED: Subject to its review and approval of engagement proposals, the Audit Committee approves engagement of Grant Thornton to:

- (a) review the internal controls surrounding the operation of its Geneva office; and
- (b) review ISOC's worldwide employment practices for local compliance and global tax implications.

This resolution does not require confirmation by the Board of Trustees.

Out-of-Policy Leave Accruals

Mr. Kapfer noted that the former audit firm had commented that vacation leave accruals should be reviewed periodically, and action taken in the cases of leave accruals in excess of company policy. The policy states that, without approval, no more than one year's leave be carried over from one calendar year to the next. Mr. Kapfer informed the Committee that he had performed a review of leave time. Three employees with out-of-policy balances at the beginning of 2007 will still exceed the policy threshold at the end of 2007. Mr. Kapfer pointed out that each of these three employees (a) accrues 4-5 weeks leave each year, (b) had similar carryover in 2006, (c) had taken an average of 4 weeks leave in 2007, and (d) will not likely be able to eliminate the out-of-policy balance by taking leave in 2008.

ISOC's policy does not currently explicitly specify what happens to leave that cannot be carried over from one calendar year to the next. Is it lost? Many would interpret the wording in that way. Or is the employee paid for it?

The Audit Committee recommended that management propose an explicit action for what should happen when employees have leave balances in excess of that which can be carried from year to year under ISOC policy.

Since the excess leave matter was the subject of an auditor's management letter comment, the Audit Committee believes that the 2007-2008 excess leave issue needs to be handled speedily, even if done on a one-time basis in advance of adopting new policy that will apply going forward. While management can exercise discretion on handling the leave for two of the three people involved, the third person is our President and CEO. As CEO compensation falls under the Executive Committee's responsibilities, the Audit Committee recommended that it resolve the excess leave issue as it relates to ISOC's President and CEO. Given the possible ambiguity in the current leave language, it further recommended that the CEO be paid in full for the excess leave. The Executive Committee subsequently approved the payment of the excess leave to the CEO as an extraordinary event in an E-Vote.