

2019

Annual Report



(ISC)² | SQUARED **IS THERE**



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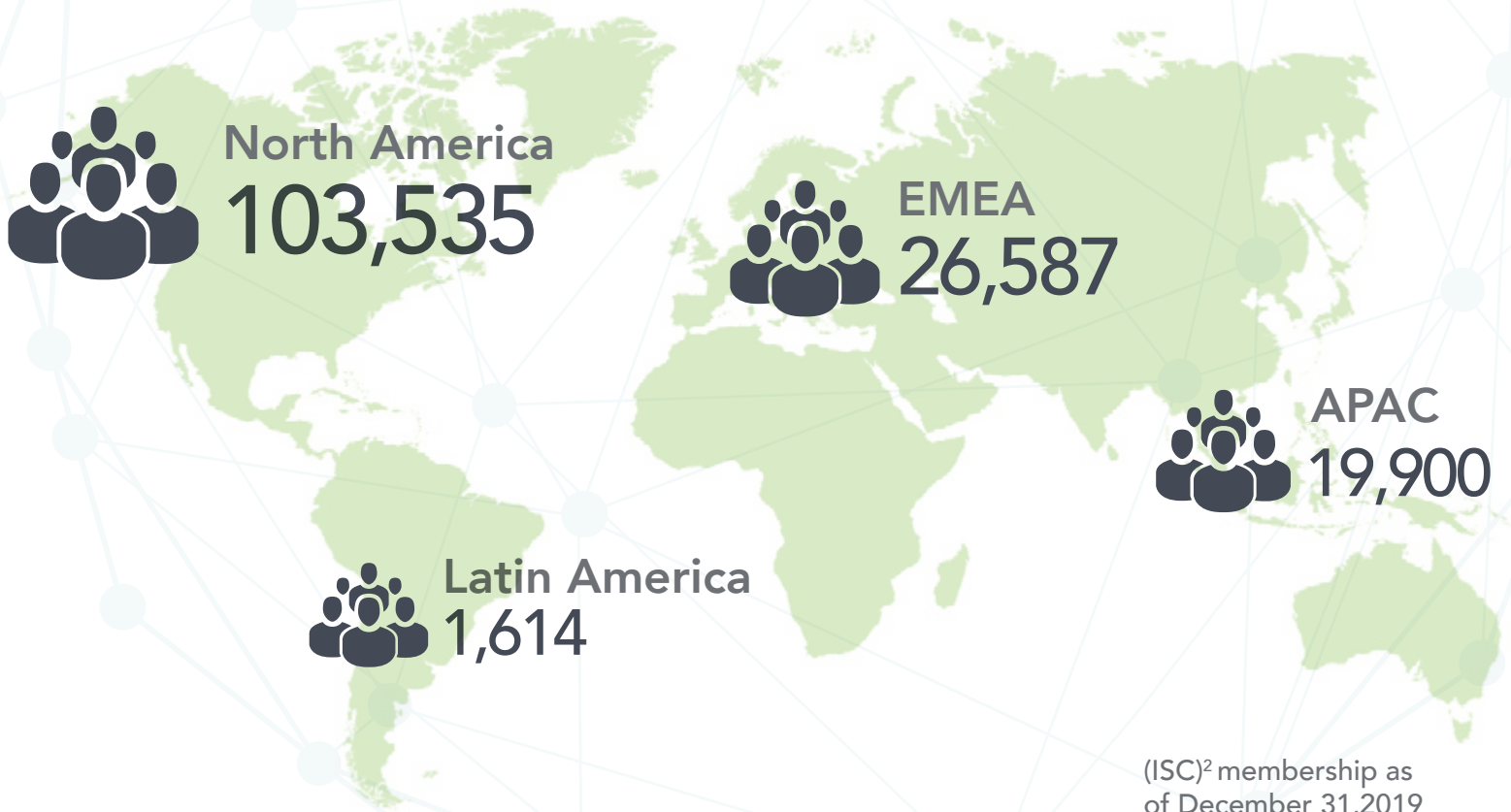
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(ISC)² Global Membership

151,636 Members **175** Countries



4,054 Associates of (ISC)² worldwide

Associates of (ISC)² are aspiring cybersecurity professionals who have passed an (ISC)² exam but do not yet have all the required work experience. Our association provides Associates with professional development and continuing education opportunities as they work toward full certification and membership status.

About (ISC)²

(ISC)² is an international nonprofit membership association focused on inspiring a safe and secure cyber world. Best known for the acclaimed Certified Information Systems Security Professional (CISSP®) certification, (ISC)² offers a portfolio of credentials that are part of a holistic, pragmatic approach to security. Our membership, more than 150,000 strong, is made up of certified cyber, information, software and infrastructure security professionals who are making a difference and helping to advance the industry. Our vision is supported by our commitment to educate and reach the general public through our charitable foundation – The Center for Cyber Safety and Education™.

Governance

Elected by (ISC)² members, the (ISC)² Board of Directors is comprised of information security professionals from around the world representing academia, private organizations and government agencies. All volunteers and (ISC)²-certified, the Board provides governance and oversight for the organization, grants certifications to qualifying candidates and enforces adherence to the (ISC)² Code of Ethics.

2019 (ISC)² Board of Directors

Jennifer Minella, CISSP (U.S.) – Chairperson

Greg J. Thompson, CISSP (Canada) – Vice Chairperson

Arthur Friedman, CISSP (U.S.) – Treasurer

Zachary Tudor, CISSP (U.S.) – Secretary

Lori Ross O’Neil, CISSP (U.S.)

Dr. Kevin Charest, CISSP (U.S.)

Biljana Cerin, CISSP (Croatia)

Dr. Earl Crane, CISSP, (U.S.)

William (Tony) Cole, CISSP, SSCP (U.S.)

Sai Honig, CISSP, CCSP (New Zealand)

SC Leung, CISSP, CISA, CBCP (Hong Kong)

Gabriel Bergel, CISSP (Chile)

David Mussington, Ph.D., CISSP (U.S.)

My fellow (ISC)² members,

As we celebrated our 30th anniversary in 2019, it was incredible to look back at the changes our industry and profession have been through. From advances in technology to new policy and regulations, this field is constantly changing, so it seems right that 2019 was no different for our association.

We began the year by launching our Professional Development Institute (PDI) as part of our mission to deliver even more value to our members. PDI offers you more than 30 courses available at absolutely no cost to our members and associates, represents \$10,000 in free education and training for each individual, and 81 CPE opportunities. By year's end, members and associates had already consumed more than \$7.9 million worth of free professional development. PDI is a valuable addition to our member benefits, and one we can all be proud of. No other association in our industry offers so much at no additional cost to its members.



We also continued to update our exams and strengthen our certifications by ensuring they encompass the latest practices and technologies. We partnered with like-minded organizations, leading corporations and government agencies around the world to increase access to exam preparation to help empower the next generation of cybersecurity professionals.

Additionally, we were proud to have all nine of our cybersecurity certifications recognized by the International Accreditation Forum following the signing of a Multilateral Recognition Arrangement that confirmed the American National Standards Institute's standing as an internationally-respected accrediting body.

It was also a year of transition. We instituted our first-ever increase of Annual Maintenance Fees (AMFs) and changed our billing policy from "in arrears" to up front. The policy changes were accompanied by an unprecedented migration of our member database to a new association management system. Some members were negatively impacted by this migration as we worked through various issues. For members negatively impacted by these changes, I apologize on behalf of the entire team at (ISC)² for any difficulty you may have experienced. We are continuing to learn from this process, and we are implementing more ways to support you going forward.

To keep things focused on you, we introduced a new awareness campaign for the association that focuses the positive impact our members make on society. I believe it's part of (ISC)²'s mandate to educate the world about everything our members do to protect critical assets and infrastructure around the globe. Our social impact comes from everything our members do each day to protect things like people, property, bank accounts, global markets and much more. All around the world, right now, people are more secure and better able to enjoy their lives because Squared is There. Because You are There. You can check out the campaign at <https://www.isc2.org/secure>.

Finally, we wrapped up the year strong with our (ISC)² Security Congress in Orlando, Fla., which featured our largest conference program ever, inspiring keynotes and more than 2,600 attendees.

The progress we made in 2019 is outlined in the following report along with our full audited financial results. (ISC)² continues to operate from a position of financial strength, and it's my commitment to you that we will continue to invest in you and your professional development as we move forward together.

I thank you for your continued support of our mission, and for your commitment and dedication to our profession as we strive to welcome more like-minded men and women into the fold.



Sincerely,

David P. Shearer, CISSP
CEO

FORWARD



Exams

Strengthening the Value of Your Certification

(ISC)² follows a rigorous, methodical process to routinely update our exams to ensure our credentials – and subsequent continuing professional education requirements – encompass topic areas, practices and technologies relevant to the roles and responsibilities of today's practicing cybersecurity professional.

In 2019, (ISC)² published domain refreshes for two of our certifications:

- CCSP – updated August 2019
- HCISPP – updated September 2019

Get Involved. Help Shape the Profession.

Our exams are routinely refreshed to reflect the most pertinent issues professionals face. Exam changes are derived from a process called the Job Task Analysis (JTA). The JTA provides the essential foundation for all our certifications and are a vital part of the process to shaping the exams. They map the actual current job tasks performed by our certified members to the content of our credentialing exams. This ensures the exam content remains relevant to professionals immersed in this dynamic, demanding and constantly-evolving industry.

In 2019, (ISC)² performed JTAs for three certifications: CSSLP, CISSP-ISSAP and the CISSP-ISSEP.

Additionally, we hosted 41 item development workshops, in which volunteer members help to develop exam questions for considered inclusion.

JTA surveys and exam item writing workshops are an excellent way for members to help us continue to uphold the quality of our assessments, help shape the future of the cybersecurity workforce and earn CPEs. If you'd like to be involved with exam development, send an email to workshops@isc2.org or visit <https://www.isc2.org/Member-Resources/Exam-Development>.



Education and Development

Enriching CPEs

The (ISC)² Education department launched the Professional Development Institute (PDI) in February to deliver increased member value, and keep our members and associates up to speed on the latest emerging trends in cybersecurity. PDI delivers a robust catalogue of courses that provide enriching CPE opportunities.

The portfolio of on-demand learning opportunities includes three course formats:

- **Immersive** courses are in-depth explorations on a single topic
- **Labs** are hands-on courses that enable students to practice specific technical skills
- **Express** learning courses are short courses for one-the-go professionals

The wide range of topic and skill areas addressed by PDI include:

- Securing the Internet of Things (IoT)
- Industrial Control Systems (ICS)
- Containers
- Cyber Insurance
- Mobile Security
- Artificial Intelligence (AI)
- NIST Cybersecurity Framework
- Penetration Testing
- Malware Analysis
- Cloud Basics
- Interpersonal Skills
- Communication with the C-Suite
- Responding to a Breach
- Gaining Support for Your Security Program
- Incident Management
- Privacy Regulations

This was a major undertaking for the association, but the program exceeded all of its goals by delivering **30 courses** by year's end. The total educational value of all courses equals more than **\$10,000** in value to each member.

Nearly **20,000** unique members and associates (14% of global membership) enrolled in a PDI course during the year, and more than **\$7.9 million** in equivalent course value was utilized.



Value Back To You
19,700+

Members and Associates Have Completed A PDI Course For

\$7.9 Million In **FREE** Professional Development So Far...

Leading Exam Preparation

The (ISC)² Education team also released the following new courses and courseware to help professionals on their path to certification and to help members further their careers by preparing for their next exam.



New Online Self-Paced CISSP Review Course helps prospective members identify CISSP CBK content that may represent an area of weakness as they evaluate what training they need as they prepare for the CISSP exam.



New CCSP courseware for classroom based, online instructor-led and self-paced courses. A new CCSP Sybex Study Guide is also available.



New HCISPP courseware for classroom based and online instructor-led courses.

(ISC)²

2019

SECURITY
CONGRESS



A Cybersecurity Conference for You

(ISC)² Security Congress 2019 was our largest and most in-depth cybersecurity education conference to date with more than 2,600 attendees. Held over the course of three days in October, the event was jam-packed with more than 180 sessions (covering 18 tracks), more than 200 speakers and headline-grabbing keynote speakers.

Attendees from more than 50 different countries came together to network and learn from their colleagues in the cybersecurity field.

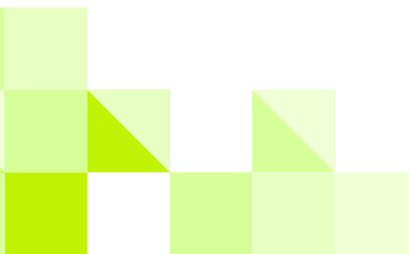
In addition to learning about topics such as Cloud Security, Cyber Crime, Governance, Risk and Compliance and other industry-related tracks, attendees heard from inspiring keynote speakers who challenged attendees to think differently:

- Captain Chesley B. “Sully” Sullenberger, III, *208 Seconds: A Life of Lessons*
- Senior Facilitator Holly Hoffman at Disney Institute, *Disney’s Approach to Quality Service*
- Author Catherine Price, *How to Break Up With Your Phone*
- Artist Erik Wahl, *The Art of Vision*
- Admiral William H. McRaven, *Leadership and Risk Management: Taking Command*

In an effort to advance the industry with the next generation and fill an employment gap of 4 million worldwide, almost 200 students attended Security Congress as part of the inaugural Student Experience program, which provided them with designated content, career resources, networking opportunities and mentorship sessions.

Nearly 1,300 attendees participated in the fundraising Comedy Night and the 5k Fun Run benefiting the Center for Cyber Safety and Education. While in Orlando, many of our attendees volunteered to teach more than 6,500 elementary students at 57 schools how to use the internet in a safe and secure way during the Center’s Cyber Safety Day Orlando.

Attend (ISC)² Security Congress and take advantage of the powerful collaboration that you can only find at a conference of your peers who are dedicated to helping one another solve the challenges we all face. Learn more at www.isc2.org/congress.



GIVING BACK

Giving Back



2019 was a record-breaking year for our charitable nonprofit the Center for Cyber Safety and Education. The Center has grown in virtually every aspect, from donors to scholarships and programs. Its efforts were recognized with the prestigious One Tampa Bay award from the Tampa Bay Business Journal and appeared in 68 media publications, including international outlets, promoting its mission.

Cybersecurity scholarships

In 2019, a total of 65 scholarships were awarded to graduate, undergraduate, women and veterans totaling \$184,000 in financial aid worldwide. 58% of those recipients being women and 42% men. Since the Center started awarding scholarship in 2011, we – along with our partners – have provided nearly \$1.6 million in aid.

Safe and Secure Online

The Center's free Safe and Secure Online programs are being downloaded daily. In 2019, the PowerPoint presentations alone were downloaded more than 1,000 times, resulting in 42,769 people reached, including senior citizens, parents and youth. In addition to community presentations, our international volunteers have taken a more active role in spreading the word about the Center by translating the SSO materials into 24 languages. Volunteers have also become ambassadors of the Center, representing us at trade shows, meeting with leaders in the community to introduce our programs or helping at events. Taking into account all these efforts, Center supporters donated over 145,000 volunteer hours in 2019.

“ It was great to have content easily available that fit the age group I was speaking to. It made serving my community easy and effective. ”

- Ryan Pieken, CISSP

Garfield's Cyber Safety Adventures

Garfield's Cyber Safety Adventures Educator Kits won two awards last year: the 2019 Academics' Choice Smart Media Award and the 2019 Teachers' Choice Award for the Classroom. The judges chose this program for its ability to engage elementary children and foster retention of core cyber safety lessons.

The success and growth of this program continues to rise as the need for cyber safety education continues to increase. In 2018, we reached 31,530 children ages 6-11 with Garfield's Cyber Safety Adventures Educator Kits, but in 2019 that number jumped to 77,250. Including our BASIC Garfield program and eLearning, 100,534 Garfield led safety lessons were delivered last year to children around the world.

To push for higher impact of Garfield's Cyber Safety Adventures, we implemented a new initiative that has the potential of becoming a worldwide activity, Cyber Safety Day. This initiative is a one-day event for schools and communities to join forces and ensure elementary children in a chosen city receive the tools to become a responsible digital citizen. Thanks to the sponsorship of corporate partners, schools receive these materials free of cost. In 2019, Cyber Safety Day Orlando in October reached more than 6,500 students. In 2020, we are already planning for Tampa, New Orleans, New York City, Toronto, Orlando and more. Each of these will reach some 10,000 children in one day!

Financial Responsibility

As a separate fund of (ISC)², the Center is responsible for raising all funds needed each year to deliver its programs. We continue to explore opportunities to raise funds that support our growth and program development. In 2019, the total revenue came to \$932,177 with 77% of the funds being reinvested into programs, 14% went toward fundraising and 9% towards administrative expenses.

Learn more about the Center and how you can get involved at www.IAmCyberSafe.org.





Advocacy

Your Voice in the Industry

Whether educating policy makers about key security issues, promoting the necessity of a competent cybersecurity workforce or building awareness about cybersecurity as a rewarding career path, (ISC)² works hard to represent our membership every day as we collectively work toward achieving our vision of inspiring a safe and secure cyber world.

Leading Through Action

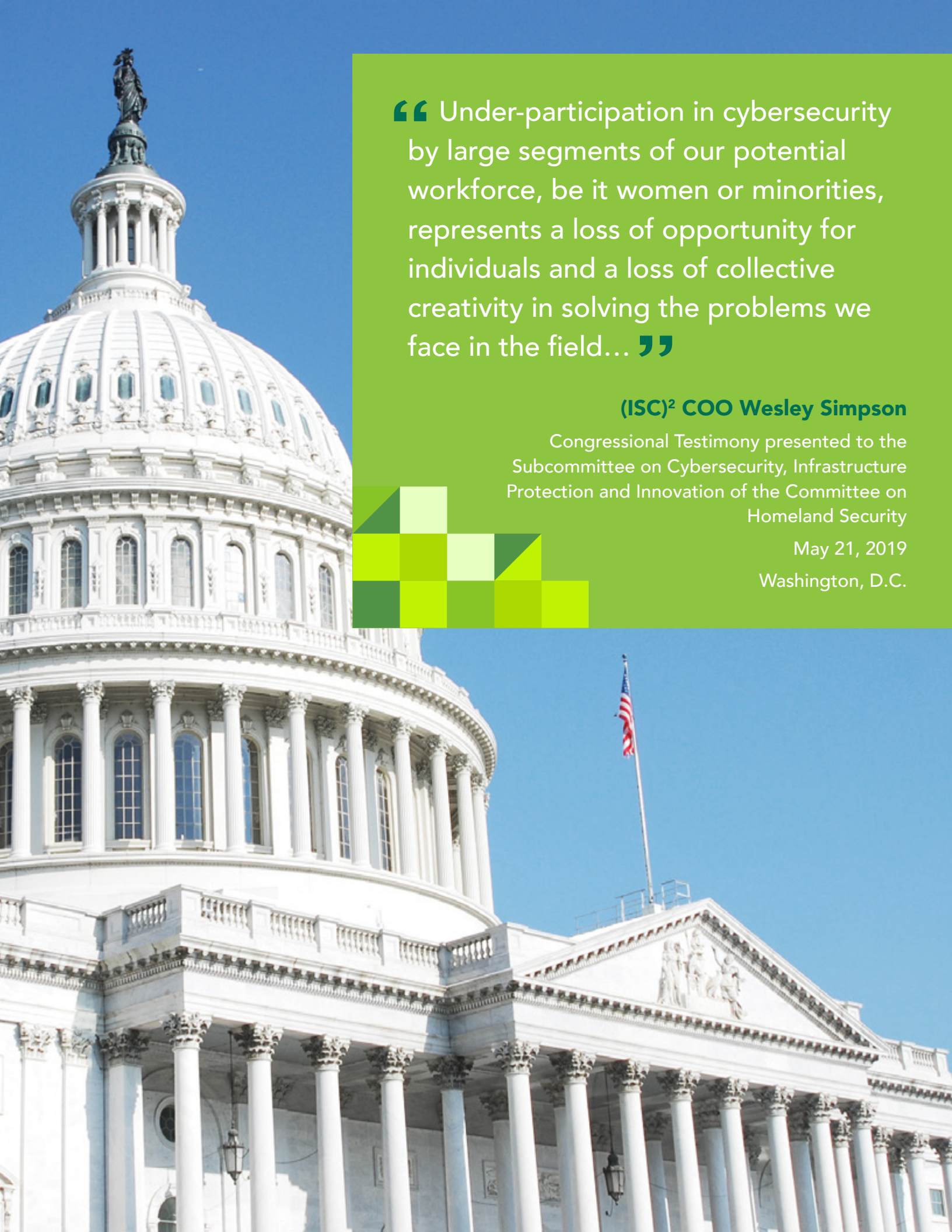
In addition to speaking and presenting at industry events and within government agencies and ministries around the world, (ISC)² continued to make its members' voices heard through its Advocacy programs.

The team has been very active engaging government agencies and lawmakers worldwide to help positively influence cybersecurity policy and ensure that investment in professionals like (ISC)² members are a priority. The team has also been collaborating with universities focused on educating the future cybersecurity workforce, as well as nonprofits and other organizations dedicated to introducing veterans, women, minorities and other under-represented populations to cybersecurity careers.

Among the accomplishments in 2019, (ISC)² forged a strategic partnership with the non-profit CyberUSA in North America, which is a 'community of communities' focused on a common mission of enabling innovation, education, workforce development, enhanced cyber readiness and resilience – all while connecting the cyber ecosystem of the United States and its allies. We also continued to spearhead the Subcommittee on Certification and Training for the National Initiative on Cybersecurity Education (NICE), providing national-level guidance in the areas of cyber range development and mapping of certifications and training to NICE work roles in the NIST Framework.

In EMEA, we helped to form the U.K. Cybersecurity Alliance, made up of 18 major players in the cybersecurity sector who are working together to deliver the U.K. Cybersecurity Council as part of a successful bid for a grant opportunity with the Department for Digital, Culture, Media and Sport (DCMS), with a goal of professionalizing the industry in the region.

In APAC, we formalized partnerships with several Australian entities including the Australian Information Security Association (AISA), the Australian Security Industry Association Limited (ASIAL) and the Australian Government's Australian Cyber Security Centre (ACSC). In addition, we attended the launch of the University of Queensland's Masters in Cyber Security program, and negotiated its alignment with our International Academic Program (IAP) to ensure that students learn the CBK content for the CISSP. The team also had several meetings with members of Japan's Ministry of Economy, Trade, and Industry, Ministry of Information and Communications, Tokyo Metropolitan Police Department and National Institute of Information and Communications Technology, to provide updates on (ISC)² certifications and explore partnerships.



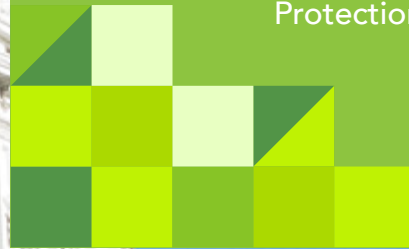
“ Under-participation in cybersecurity by large segments of our potential workforce, be it women or minorities, represents a loss of opportunity for individuals and a loss of collective creativity in solving the problems we face in the field... ”

(ISC)² COO Wesley Simpson

Congressional Testimony presented to the Subcommittee on Cybersecurity, Infrastructure Protection and Innovation of the Committee on Homeland Security

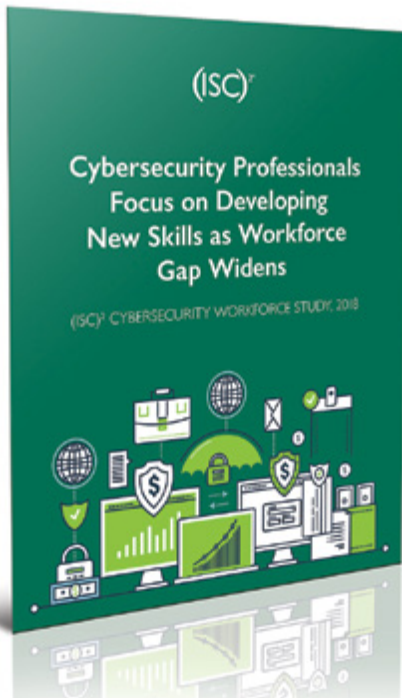
May 21, 2019

Washington, D.C.



Revealing New Opportunities

The cybersecurity profession faces many challenges but even more opportunities. (ISC)² published the following research in 2019:



Cybersecurity Workforce Study

The (ISC)² Cybersecurity Workforce Study is conducted annually to assess the cybersecurity workforce gap, better understand the barriers facing the cybersecurity profession, and uncover solutions that position these talented individuals to excel in their profession, secure their organizations' critical assets and achieve their career goals.

With our 2019 study, for the first time in the industry's history we were able to estimate the current existing workforce at 2.8 million professionals. That enabled us to calculate the scope of the growth needed (145%) to overcome the global skills gap of 4.07 million needed individuals. The study also investigated how security teams are staffed within organizations and let us relay the types of job functions and titles that are over- and underrepresented.

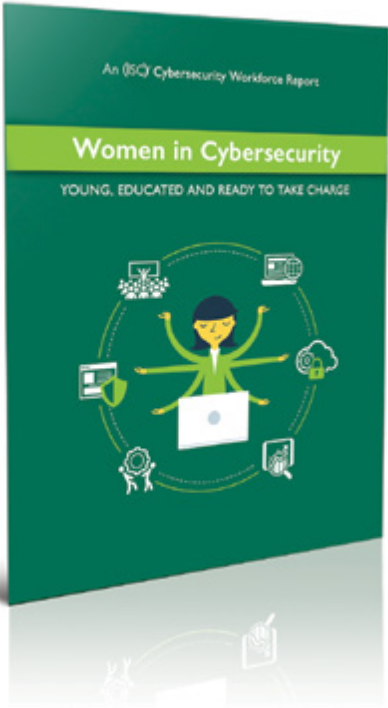
www.isc2.org/research/workforce-study

Securing the Partner Ecosystem

Conventional wisdom has long held that small businesses have less sophisticated cybersecurity defenses, smaller budgets and fewer skilled resources, providing an easy entry point for threat actors into large enterprises. Our research contradicted this belief. Seeking to understand the level of threat posed to large enterprises by third-party providers, (ISC)² polled 709 respondents, half of whom were from smaller businesses with 250 or fewer employees, and half of which were from large enterprises with at least 1,000 employees. The study found that large enterprises as a whole are conflicted about how much risk small businesses really pose.

www.isc2.org/Research/Ecosystem





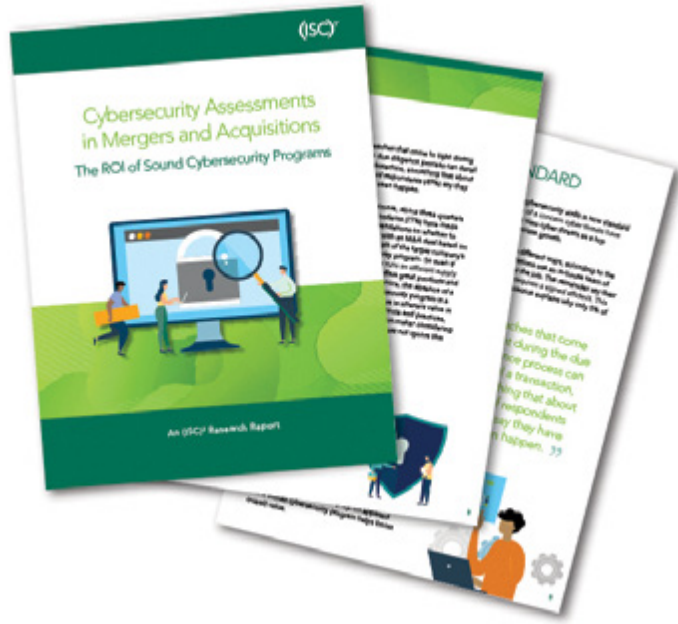
Women in Cybersecurity

We took a new approach to surveying the cybersecurity workforce, including those IT professionals who spend at least a quarter of their time on security tasks. This new look at the workforce revealed that the percentage of women in cybersecurity is roughly 24%. While men continue to outnumber women in cybersecurity and pay disparity still exists, women in the field are buoyed by higher levels of education and are finding their way to leadership positions.

www.isc2.org/research/women-in-cybersecurity

Cybersecurity Assessments in Mergers & Acquisitions

In mergers and acquisitions negotiations, buyers look closely at factors such as a company's balance sheet, intellectual property and market share. How well a company performs in each of these areas can make or break a deal, but what some potential sellers may not realize is that another factor has become just as important in M&A activities – a company's cybersecurity program. (ISC)² polled a highly-targeted group of 250 U.S.-based professionals with M&A expertise to understand how important of a role cybersecurity plays in organizational audits during the course of a sale or merger, and what tangible effects it may have on the value and the outcome of a deal.



www.isc2.org/Research/The-ROI-of-Sound-Cybersecurity-Programs

Learn more at www.isc2.org/research.

2019 Accomplishments



Providing Workforce Commentary on CNBC and PBS

CNBC's Help Wanted series included (ISC)² cybersecurity workforce statistics and CEO David Shearer was interviewed on camera for PBS's Nightly Business Report to preview the new Cybersecurity Workforce Study data.

<http://nbr.com/2019/11/04/strong-demand-for-cybersecurity-workers/>

CISSP Recognized

The CISSP was awarded Best Professional Certification Program of 2019 by SC Media at its 23rd annual awards gala in March, during RSA Conference in San Francisco. A 2019 Upwork Skills Index listed the CISSP as one of the 20 fastest-growing job skills in the U.S. labor market. Additionally, respondents to the 2018 (ISC)² Cybersecurity Workforce Study indicated that the CISSP would be the most pursued cybersecurity certification in the world in 2019.



WEBINARS

Webinar Program Accessibility

Our award-winning webinar channels, hosted on the BrightTALK platform, now include a closed captioning feature on live streaming versions for hearing-impaired viewers. This increased accessibility aligns with the association's efforts to expand cybersecurity education and support cybersecurity professionals in their continued development.

www.isc2.org/News-and-Events/Webinars

A light grey map of the Asia-Pacific region, including Australia, New Zealand, and various Asian countries, serving as a background for the membership statistics.

19,000

MEMBERS IN ASIA-PACIFIC

Asia-Pacific Continues Growth

Membership in Asia-Pacific exceeded 19,000 in the first half of the year. Hong Kong reached the milestone of 2,000 members, joining six other economies in the region, including Australia, India, Japan, Korea, China and Singapore, that have at least that many.

HMRC Recognition

In April, (ISC)² was granted Approved Professional Organizations and Learned Societies status by HM Revenue & Customs (HMRC), the U.K. tax, payments and customs authority. This status recognizes (ISC)² among a select number of essential professional societies and bodies that share or advance professional knowledge, maintain or improve professional conduct and competence, or protect members from claims made against them while doing their job. It also allows U.K. members of (ISC)² to claim tax relief on their annual maintenance fee (AMF).



2019 Accomplishments



Testifying Before Congress

(ISC)² was invited to testify before a Congressional subcommittee on “Growing and Diversifying the Cyber Talent Pipeline.” COO Wesley Simpson provided insights from the (ISC)² Cybersecurity Workforce Study and (ISC)² Women in Cybersecurity Study, and proposed solutions to recruit and increase opportunities for minority groups within our industry.

Certifications Approved for College Credit

The American Council on Education’s College Credit Recommendation Service (ACE CREDIT®) evaluated and recommended college credit for (ISC)² candidates successfully passing six of our cybersecurity exams or completing four of our Official (ISC)² courses. More than 2,000 colleges and universities consider ACE CREDIT recommendations in determining the applicability of coursework and examination results for their courses and degree programs.



**INTERNATIONAL INFORMATION SYSTEM
SECURITY CERTIFICATION CONSORTIUM, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2019 and 2018
(With Independent Auditor's Report Thereon)**

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

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Independent Auditor’s Report

The Board of Directors
International Information System Security Certification Consortium, Inc.
and Subsidiaries:

We have audited the accompanying consolidated financial statements of International Information System Security Certification Consortium, Inc. and Subsidiaries (the “Organization”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Information System Security Certification Consortium, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Organization changed its method of accounting for revenue from contracts with customers effective January 1, 2019, under the modified retrospective method.

Mayer Hoffman McCann P.C.

March 12, 2020
Clearwater, Florida

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Consolidated Statements of Financial Position

December 31, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 22,772,804	21,228,317
Event receivables, less allowance for doubtful accounts of \$0 and \$249,000 in 2019 and 2018, respectively	2,216,729	1,336,592
Certification receivables, less allowance for doubtful accounts of \$1,890,000 and \$795,000 in 2019 and 2018, respectively	530,935	5,297,435
Other accounts receivable	450,711	450,140
Prepaid expenses	<u>3,412,915</u>	<u>3,168,778</u>
Total current assets	29,384,094	31,481,262
Property and equipment, net	2,306,636	1,590,181
Other assets:		
Investments	47,893,675	32,298,976
Examination question pool, net of amortization of \$2,392,000 and \$1,872,000 in 2019 and 2018, respectively	3,322,023	2,858,495
Other	<u>572,250</u>	<u>726,257</u>
Total assets	<u>\$ 83,478,678</u>	<u>68,955,171</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,081,780	5,495,925
Deferred revenue	21,814,644	10,863,146
Foreign tax accrual	<u>466,507</u>	<u>502,568</u>
Total current liabilities	28,362,931	16,861,639
Accrued scholarships - long term	9,369	10,870
Deferred compensation	<u>195,210</u>	<u>117,794</u>
Total liabilities	28,567,510	16,990,303
Net assets:		
Without donor restrictions:		
Undesignated	21,738,721	25,318,239
Board designated operating reserves	<u>33,000,000</u>	<u>26,500,000</u>
Total net assets without donor restrictions	54,738,721	51,818,239
With donor restrictions	<u>172,447</u>	<u>146,629</u>
Total net assets	<u>54,911,168</u>	<u>51,964,868</u>
Total liabilities and net assets	<u>\$ 83,478,678</u>	<u>68,955,171</u>

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Consolidated Statements of Activities

For the Years Ended December 31, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Operating support and revenue:		
Educational services	\$ 21,584,648	20,526,917
Professional examinations	24,921,972	24,290,312
Certification renewal fees	13,782,004	12,123,186
In-kind contributions	477,800	250,350
Contributions	201,340	241,483
Investment return designated for current operations	896,730	692,954
Other revenue	648,943	1,062,028
Foreign currency exchange loss	(84,791)	(41,802)
	62,428,646	59,145,428
Total operating support and revenue		
Operating expenses:		
Program services	36,433,854	32,734,965
Supporting services:		
Administrative	27,255,035	21,689,550
Fundraising	113,668	151,455
	63,802,557	54,575,970
Total operating expenses		
Change in net assets without donor restrictions from operations	(1,373,911)	4,569,458
Other changes:		
Investment return in excess of (deficient to cover) amounts designated for current operations	4,622,053	(2,742,402)
Impact of change in revenue recognition accounting policy	(327,660)	-
	2,920,482	1,827,056
Change in net assets without donor restrictions		
Changes in net assets with donor restrictions:		
Contributions	25,818	79,473
	25,818	79,473
Change in net assets with donor restrictions		
Change in net assets	2,946,300	1,906,529
Net assets at beginning of year	51,964,868	50,058,339
Net assets at end of year	\$ 54,911,168	51,964,868

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2019

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Employee salaries and wages	\$ 8,891,005	9,930,178	40,406	18,861,589
Employee benefits and taxes	1,628,122	1,998,480	10,174	3,636,776
Total personnel costs	10,519,127	11,928,658	50,580	22,498,365
Educational services	8,642,815	-	-	8,642,815
Professional examinations	4,996,442	-	-	4,996,442
Marketing and communications	1,135,016	1,650,662	26,834	2,812,512
Bad debt expense	1,142,002	-	-	1,142,002
Bank fees	1,849,163	37,382	451	1,886,996
Computer licenses and support	61,022	6,084,782	1,154	6,146,958
Contract labor	544,648	-	-	544,648
Impairment of intangibles	357,771	-	-	357,771
Membership development	278,413	-	-	278,413
Other	236,916	351,948	199	589,063
Professional fees	2,410,954	3,684,988	17,124	6,113,066
Rent	762,049	1,101,498	7,222	1,870,769
Scholarships	122,337	-	-	122,337
Supplies	172,547	196,517	130	369,194
Telephone and internet	61,849	91,504	-	153,353
Training	60,239	301,263	-	361,502
Travel	885,605	1,117,965	8,273	2,011,843
Total operating expenses before depreciation, amortization and taxes	34,238,915	26,547,167	111,967	60,898,049
Amortization	1,758,784	-	-	1,758,784
Depreciation	411,778	707,868	1,701	1,121,347
Value added taxes	24,377	-	-	24,377
Total operating expenses	\$ 36,433,854	27,255,035	113,668	63,802,557

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2018

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Employee salaries and wages	\$ 8,735,492	6,719,924	45,578	15,500,994
Employee benefits and taxes	1,528,320	1,531,052	10,469	3,069,841
Total personnel costs	10,263,812	8,250,976	56,047	18,570,835
Educational services	7,120,815	-	-	7,120,815
Professional examinations	5,277,864	-	-	5,277,864
Marketing and communications	1,729,195	668	37,770	1,767,633
Bad debt expense	501,739	201,837	-	703,576
Bank fees	1,274,937	39,502	24	1,314,463
Computer licenses and support	13,253	4,179,161	2,400	4,194,814
Contract labor	-	9,020	-	9,020
Impairment of intangibles	272,261	-	-	272,261
Membership development	271,172	-	-	271,172
Other	196,501	300,951	1,546	498,998
Professional fees	2,210,140	5,924,423	33,618	8,168,181
Rent	755,383	938,804	8,875	1,703,062
Scholarships	126,418	-	-	126,418
Supplies	141,390	211,962	618	353,970
Telephone and internet	49,235	48,191	-	97,426
Training	17,692	149,101	-	166,793
Travel	1,026,522	756,209	8,687	1,791,418
Total operating expenses before depreciation, amortization and taxes	31,248,329	21,010,805	149,585	52,408,719
Amortization	1,383,790	-	-	1,383,790
Depreciation	102,564	678,745	1,870	783,179
Value added taxes	282	-	-	282
Total operating expenses	\$ 32,734,965	21,689,550	151,455	54,575,970

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,946,300	1,906,529
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,880,131	2,166,969
Provision for bad debts	1,142,002	703,576
Impairment of intangibles	357,771	272,261
Loss on disposal of assets	31,164	8,661
Realized and unrealized losses (gains) on investments	(4,622,053)	3,049,500
Decrease (increase) in operating assets:		
Events, certifications, and other accounts receivable	2,743,790	(1,323,728)
Prepaid expenses	(244,137)	(1,253,518)
Other assets	154,007	(63,225)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	585,855	1,642,463
Deferred revenue	10,951,498	1,329,582
Foreign tax accrual	(36,061)	176,750
Accrued scholarships	(1,501)	(2,417)
Deferred compensation	77,416	(826,071)
Net cash provided by operating activities	16,966,182	7,787,332
Cash flows from investing activities:		
Purchases of property and equipment	(1,868,966)	(713,680)
Proceeds from sale of equipment	-	2,640
Question pool development costs	(2,580,083)	(2,491,079)
Purchase of investments	(23,307,419)	(19,677,016)
Proceeds from sale of investments	12,334,773	12,501,556
Net cash used in investing activities	(15,421,695)	(10,377,579)
Net change in cash and cash equivalents	1,544,487	(2,590,247)
Cash and cash equivalents at beginning of year	21,228,317	23,818,564
Cash and cash equivalents at end of the year	\$ 22,772,804	21,228,317

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(1) Organization

International Information System Security Certification Consortium, Inc. and Subsidiaries (the “Consortium”) is a nonprofit organization organized in the state of Massachusetts. The Consortium establishes international standards of excellence within the field of information systems security and provides certification to individuals in the profession. It also provides educational services to various entities and its certification holders around the world. Its corporate headquarters are located in Clearwater, Florida.

The accompanying consolidated financial statements include the accounts of International Information System Security Certification Consortium, Inc. (ISC)² and its wholly-owned subsidiaries: International Information Systems Security Certification Consortium Limited, Hong Kong (Hong Kong Company) and International Information Systems Security Certification Consortium Limited, United Kingdom (UK Company), as well as the Center for Cyber Safety and Education (the “Center”), which is a segregated fund within the Consortium. All intercompany transactions have been eliminated. The Hong Kong Company and the UK Company were organized to enable business transactions in Hong Kong and the United Kingdom, respectively. The Center was established as a segregated fund within the Consortium for exclusively charitable purposes.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America which require the Consortium report information regarding its consolidated financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Directors (the Board) has designated a portion of its net assets without donor restrictions as an operating reserve to fund future capital investments and other long-term needs.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Donor-imposed restrictions are temporary in nature and will be met either by the passage of time or the accomplishment of a purpose restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported in the accompanying consolidated statement of activities as net assets released from restrictions. At December 31, 2019 and 2018, net assets with donor restrictions were restricted for specific programs of the Center and totaled \$172,447 and \$146,629, respectively.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(b) Cash and Cash Equivalents

The Company considers all short-term investments with original maturities of three months or less to be cash equivalents.

(c) Event and Certification Receivables

Event and certification receivables are recorded at realizable value net of an allowance for doubtful accounts. The allowance is estimated from historical performance and projection of trends. Accounts that are more than 120 days past due are put on credit hold. Event and certification receivables are written off when deemed uncollectible. Event and certification receivables may be charged a fee for interest if the account remains in a delinquent status. Interest income is recorded upon billing.

(d) Prepaid Expenses

Prepaid expenses consist primarily of insurance premiums, software license agreements, and software maintenance. These items are expensed pro rata over the contract period in which the Consortium receives the benefits.

(e) Property and Equipment

Property and equipment with an estimated life greater than one year are recorded at cost and depreciated using the straight-line method of depreciation over the estimated useful lives of the underlying assets.

(f) Assets Limited as to Use

As of December 31, 2019, investments include assets limited as to use representing assets held by trustees for the Consortium's 457(b) benefit plan as more fully described in Note 10.

(g) Investments

Investments consisting primarily of mutual funds and money funds are measured at fair value based on quoted market prices. Investments also include corporate and government bonds which are measured at fair value based on quoted market prices in inactive markets. Gains and losses on fair value adjustments are recognized on the specific identification basis, net of investment expenses.

The Consortium's deferred compensation plan investments are measured at fair value on a recurring basis and consist of primarily of mutual funds, corporate and government bonds, and money funds.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(h) Examination Question Pool

The examination question pool consists of costs for developing exam questions that are the basis for certifications exams. Questions are used on a statistically determined rotating basis and are updated periodically to provide tests that are statistically unique. The question pool is being amortized on a straight-line basis over estimated lives of three years.

(i) Impairment or Disposal of Long-Lived Assets

The Consortium reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Consortium assesses the recoverability of the cost of the asset based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The Consortium recorded a loss from impairment of intangibles of \$357,771 and \$272,261 for the years ended December 31, 2019 and 2018, respectively.

(j) Revenue Recognition and Operations

During 2019, the Consortium, utilizing the modified retrospective method, adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). As part of the adoption, the Consortium has evaluated each of the five steps of Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, which are as follows: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations; and (5) Recognize revenue when (or as) performance obligations are satisfied.

The Consortium derives revenue from educational services, professional examinations (“examinations” or “exams”), and certification renewal fees (“certification”).

Educational services include revenues from seminar attendance fees, annual event attendance fees, and kit sales. The Consortium recognizes revenue for seminar attendance fees and annual event attendance fees when the service is provided to the customer, generally over the time period of the seminar or annual event. The Consortium has determined that over time recognition is appropriate because the customer receives and consumes the benefit of the services ratably over the days the seminar or annual event is held. The Consortium recognizes revenue for kit sales when the control of products has been transferred to the customer. The Consortium has determined that a point in time recognition is appropriate because the customer receives and consumes the benefit of the goods once control of the kit has been transferred to the customer.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(j) Revenue Recognition and Operations - Continued

Examination revenues include examinations and exam rescheduling fees. The Consortium recognizes examination revenue and exam rescheduling fees at a point in time when the examination has been completed by the applicant. The Consortium has determined that a point in time recognition is appropriate because the customer receives and consumes the benefit of the examination when the examination has been taken by the applicant.

Certification revenue includes fees earned from renewals of memberships and professional certifications. The Consortium recognizes certification revenue over the term of the membership. The Consortium has determined that over time recognition is appropriate because the customer receives and consumes the benefit of the certification over the term of the membership.

(k) Deferred Revenue

Education service fees received in advance are deferred and recognized over the course of the training program. Professional examination fees and rescheduling fees received from certification applicants are deferred for revenue recognition purposes until the examination has been completed by the applicants. Certification renewal fees covering future periods, for which payment has been received, are deferred and recognized as revenue over the period of membership.

(l) Contributions

All contributions are reflected in net assets without donor restrictions or in net assets with donor restrictions based on the existence or absence of donor restrictions. Amounts received with donor-imposed restrictions that are recorded as revenues in net assets with donor restrictions are reclassified to net assets without donor restrictions when the time or purpose restriction has been satisfied.

(m) Donated Services

Contributions of services are recognized if the services received (a) create or enhance an asset or (b) require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The value of services is based on estimated fair value.

(n) Advertising

The Consortium uses external advertising resources. External advertising consists of promotions, publications, and internet advertising. The Consortium expenses advertising costs when incurred. Advertising costs incurred during 2019 and 2018 were \$2,389,567 and \$1,284,802, respectively, and are included in marketing and communications expense.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(o) Income Taxes

The Consortium, excluding the Center, is generally exempt from U.S. income taxes under Section 501(c)(6) of the Internal Revenue Code. The Center is generally exempt from U.S. income taxes under Section 501(c)(3) of the Internal Revenue Code. Information returns (Forms 990) are filed with the Internal Revenue Service (IRS). The Consortium has evaluated its tax positions taken for all open tax years and does not believe it has any uncertain income tax positions as defined by accounting principles generally accepted in the United States of America for income taxes. The 2016, 2017 and 2018 tax years are open and subject to examination by the IRS. The Consortium is not currently under audit nor has the Consortium been contacted by the IRS.

Some foreign operations of the Consortium are subject to foreign income taxes. Foreign taxes are expensed when incurred. There was no income tax expense related to foreign operations for the year ended December 31, 2019 as the Consortium has operating losses in foreign taxing jurisdictions and net operating loss carryforwards of approximately \$3,177,000. The Consortium operates in countries where foreign taxes are not paid, so there may be additional foreign tax jurisdictions that may assess income taxes to the Consortium.

(p) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining the carrying value of the allowance for doubtful accounts, amortization life of examination question pool assets, in-kind revenues, and the foreign tax accrual. Although some variability is inherent in these estimates, management believes that the amounts presented are adequate.

(q) Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area of the Consortium are reported as direct expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the functional areas based on either time spent by employees on each functional area or based on the Consortium's square footage analysis for all indirect occupancy-related indirect costs.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(r) Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform with the 2019 presentation.

(s) New Accounting Pronouncement

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the provisions of ASU 2014-09 for annual reporting periods beginning after December 15, 2018. The Consortium adopted this guidance on January 1, 2019 using the modified retrospective approach. The cumulative impact of adopting Topic 606 on January 1, 2019 was a decrease in net assets without donor restrictions of \$327,660. Under the modified retrospective approach method, the Consortium was not required to restate comparative financial information prior to adoption of these standards, and therefore, such information presented prior to January 1, 2019 continues to be reported under the Consortium's previous accounting policies. Prior to the adoption of Topic 606, the Consortium recognized revenue over time and at a point in time for the following types of revenues:

Education Service Revenues - Education service revenues include seminar attendance fees, annual event attendance fees, and kit sales. The Consortium recognized revenue under these arrangements when the seminars or annual events were held and when control of kits had been transferred to the customer. The adoption of Topic ASC 606 had no impact on revenue recognition for education services.

Certification Revenue - Certification revenue includes renewal fees for memberships and certifications. The Consortium recognized certification revenue over the term of the membership. The adoption of Topic ASC 606 had no impact on revenue recognition for certification revenue.

Exam Revenues - Exam revenues include examinations and exam rescheduling fees. The Consortium recognized examination revenue and exam rescheduling fees at a point in time as follows:

- Examination - Exam revenues were recognized at a point in time when the examination had been completed by the applicant. The adoption of Topic 606 had no impact on these types of revenues.
- Exam Rescheduling Fees - Exam rescheduling fees were recognized when exams were rescheduled by the applicant. The adoption of Topic 606 changed the timing of revenue recognition of rescheduling fees to coincide with when the applicant completes their examination.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(s) New Accounting Pronouncement - Continued

The following table illustrates the impact of adopting ASC Topic 606 on the Consortium's consolidated balance sheet as of December 31, 2019:

	<u>As Reported</u>	<u>Adjustment Due to ASC Topic 606</u>	<u>Balances Without Adoption of Topic 606</u>
Total assets	\$ 83,478,678	-	83,478,678
Current liabilities:			
Accounts payable and accrued liabilities	6,081,780	-	6,081,780
Deferred revenue	21,814,644	(574,350)	21,240,294
Foreign tax accrual	466,507	-	466,507
Accrued scholarships - long term	9,369	-	9,369
Deferred compensation	195,210	-	195,210
Total liabilities	28,567,510	(574,350)	27,993,160
Net assets:			
Without donor restrictions:			
Undesignated	21,738,721	574,350	22,313,071
Board designated operating reserves	33,000,000	-	33,000,000
Total net assets without donor restrictions	54,738,721	574,350	55,313,071
With donor restrictions	172,447	-	172,447
Total net assets	54,911,168	574,350	55,485,518
Total liabilities and net assets	\$ 83,478,678	-	83,478,678

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(s) New Accounting Pronouncement - Continued

The following table illustrates the impact of adopting ASC Topic 606 on the Consortium's consolidated statement of activities for the year ended December 31, 2019:

	<u>As Reported</u>	<u>Adjustment Due to ASC Topic 606</u>	<u>Balances Without Adoption of Topic 606</u>
Changes in net assets without donor restrictions:			
Operating support and revenue:			
Educational services	\$ 21,584,648	-	21,584,648
Professional examinations	24,921,972	246,690	25,168,662
Certification renewal fees	13,782,004	-	13,782,004
In-kind contributions	477,800	-	477,800
Contributions	201,340	-	201,340
Investment return	896,730	-	896,730
Other revenue	648,943	-	648,943
Foreign currency exchange loss	(84,791)	-	(84,791)
	<u>62,428,646</u>	<u>246,690</u>	<u>62,675,336</u>
Total operating support and revenue			
	<u>63,802,557</u>	<u>-</u>	<u>63,802,557</u>
Total operating expenses			
Other changes:			
Impact of change in revenue recognition accounting policy	(327,660)	327,660	-
Change in net assets without donor restrictions	(1,701,571)	574,350	(1,127,221)
Change in net assets with donor restrictions	25,818	-	25,818
Change in net assets	<u>\$ (1,675,753)</u>	<u>574,350</u>	<u>(1,101,403)</u>

The following table illustrates the impact of adopting ASC Topic 606 on the Consortium's consolidated statement of cash flows for the year ended December 31, 2019:

	<u>As Reported</u>	<u>Adjustment Due to ASC Topic 606</u>	<u>Balances Without Adoption of Topic 606</u>
Increase (decrease) in operating liabilities:			
Change in net assets	\$ (1,675,753)	574,350	(1,101,403)
Deferred revenue	\$ 10,951,498	(574,350)	10,377,148

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(t) Subsequent Events

The Consortium has evaluated subsequent events through March 12, 2020, the date the consolidated financial statements were available to be issued.

(3) Liquidity and Availability of Resources

The Consortium regularly monitors liquidity to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. The Consortium has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Consortium considers all expenditures related to its ongoing program activities as well as activities conducted to support those programs to be general expenditures. In addition to the financial assets available to meet general expenditures over the next 12 months, the Consortium operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statement of cash flows which identifies sources and uses of the Consortium's cash and cash equivalents and shows positive cash generated from operations for the years ended December 31, 2019 and 2018.

As of December 31, 2019, the Consortium's financial assets available to meet cash needs for general expenditures for the next 12 months were as follows:

Financial assets:	
Cash and cash equivalents	\$ 22,772,804
Accounts receivable	3,198,375
Investments	<u>47,893,675</u>
Total financial assets	73,864,854
Less amounts unavailable for general expenditure within the next 12 months due to:	
Contractual or donor-imposed restrictions:	
Donor-restricted for specific purposes	(172,447)
Board-designations:	
Operating reserves	<u>(33,000,000)</u>
Financial assets available to meet cash needs for general expenditures over the next 12 months	<u>\$ 40,692,407</u>

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(4) Center Activity

The Center was established as a separate fund within the Consortium during 2011. In 2019 and 2018, the Center recorded contributions of \$600,000 from (ISC)², respectively, which were eliminated upon consolidation. The Center also recorded \$227,158 and \$320,956 of contributions from outside sources in 2019 and 2018, respectively. In addition, the Center recorded expenses as follows for the years ended December 31:

	2019	2018
Program services:		
Scholarship programs	\$ 202,603	198,345
Safe and secure program	437,092	541,058
Fundraising expenses	113,668	151,455
Administrative expenses	74,648	67,611
	\$ 828,011	958,469

(5) Property and Equipment

Property and equipment and estimated useful lives consist of the following at December 31:

	2019	2018	Estimated Useful Lives
Computer equipment and software	\$ 2,641,646	2,526,216	3-5 years
Office equipment	522,259	237,569	3 years
Website	604,527	604,527	3 years
Furniture and fixtures	611,889	414,254	7-10 years
Vehicles	46,100	46,100	5 years
Leasehold improvements	1,023,878	494,160	7 years
	5,450,299	4,322,826	
Less accumulated depreciation	(3,143,663)	(2,732,645)	
	\$ 2,306,636	1,590,181	

Depreciation expense for the years ended December 31, 2019 and 2018 was \$1,121,347 and \$783,179, respectively.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(6) Investments and Fair Value Measurements

The Consortium records fair value measurements according to accounting principles generally accepted in the United States of America, which define fair value and specify a hierarchy of valuation techniques. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Consortium's significant market assumptions. The Consortium measures investments at fair value on a recurring basis.

The following is a brief description of the types of valuation information (inputs) that qualify a financial asset for each level:

- Level 1: Unadjusted quoted market prices for identical assets or liabilities in active markets which are accessible by the Consortium;
- Level 2: Observable prices in active markets for similar assets or liabilities, prices for identical or similar assets or liabilities in markets that are not active, market inputs that are not directly observable but are derived from or corroborated by observable market data;
- Level 3: Unobservable inputs based on the Consortium's own judgment as to assumptions a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data.

Financial assets classified as Level 1 in the fair value hierarchy include mutual funds and money funds in 2019 and 2018. These investments are traded on a daily basis in active markets and the Consortium estimates the fair value of these securities using unadjusted quoted market prices.

Corporate and government bonds are recorded as Level 2 in the hierarchy. The valuation of these bonds is based on quoted market prices in inactive markets.

A review of fair value hierarchy classification is conducted on an annual basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Consortium evaluates the various types of financial assets to determine the appropriate fair value hierarchy classification based upon trading activity and the observability of market inputs. The Consortium employs control processes to validate the reasonableness of the fair value estimates of its assets and liabilities, including those estimates based on prices and quotes obtained from independent third party sources.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(6) Investments and Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Consortium's assets at fair value as of December 31, 2019 and 2018:

<u>Description</u>	<u>Fair Value Measurements at December 31, 2019 Using</u>			
	<u>Assets Measured at Fair Value at December 31, 2019</u>	<u>Observable Inputs (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Mutual funds:				
Mid cap	\$ 1,680,006	1,680,006	-	-
Small cap	1,187,103	1,187,103	-	-
Large cap	40,149	40,149	-	-
Stock index	7,153,784	7,153,784	-	-
Value	2,852,659	2,852,659	-	-
US equity	156	156	-	-
Emerging markets	1,949,061	1,949,061	-	-
International	7,630,422	7,630,422	-	-
Equities - ETF	3,110,325	3,110,325	-	-
Real estate	2,172,597	2,172,597	-	-
Balanced portfolio	68,839	68,839	-	-
Corporate bonds	12,885,005	-	12,885,005	-
Government bonds	6,223,779	-	6,223,779	-
Money funds	939,790	939,790	-	-
	<u>\$ 47,893,675</u>	<u>28,784,891</u>	<u>19,108,784</u>	<u>-</u>

<u>Description</u>	<u>Fair Value Measurements at December 31, 2018 Using</u>			
	<u>Assets Measured at Fair Value at December 31, 2018</u>	<u>Observable Inputs (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Mutual funds:				
Mid cap	\$ 1,002,076	1,002,076	-	-
Small cap	661,282	661,282	-	-
Large cap	18,907	18,907	-	-
Stock index	6,636,711	6,636,711	-	-
Global listed infrastructure	312,010	312,010	-	-
US equity	130	130	-	-
Emerging markets	2,276,812	2,276,812	-	-
International	5,158,486	5,158,486	-	-
Equities - ETF	1,629,842	1,629,842	-	-
Real estate	648,487	648,487	-	-
Balanced portfolio	47,175	47,175	-	-
Corporate bonds	9,368,030	-	9,368,030	-
Government bonds	4,329,415	-	4,329,415	-
Money funds	209,613	209,613	-	-
	<u>\$ 32,298,976</u>	<u>18,601,531</u>	<u>13,697,445</u>	<u>-</u>

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(7) Concentrations

(a) Credit Risk

The Consortium maintains cash balances at various banking institutions. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash balances in banks in excess of FDIC insured limits were approximately \$22.7 million at December 31, 2019 and \$21 million at December 31, 2018. These funds could be subject to loss if the financial institutions were to fail. Management believes the financial institutions are financially stable and that the funds are secure.

The functional currency of the majority of the Consortium's operations is the U.S. dollar; however, there are a number of transactions for which the Consortium is paid in foreign currency (British pounds or Euro).

The Consortium has included the following in cash and event receivables at December 31:

		2019		
		Foreign Currency	Exchange Rate	U.S. Dollars
Cash:				
Funds in British pounds	£	386,144	1.31	\$ 505,849
Funds in Euro	€	217,908	1.12	244,057
Event receivables:				
Funds in British pounds	£	349,596	1.31	457,971
Funds in Euro	€	211,972	1.12	237,409
				\$ 1,445,286
		2018		
		Foreign Currency	Exchange Rate	U.S. Dollars
Cash:				
Funds in British pounds	£	316,810	1.27	\$ 402,507
Funds in Euro	€	288,310	1.14	330,028
Event receivables:				
Funds in British pounds	£	245,149	1.27	311,462
Funds in Euro	€	110,835	1.14	126,873
				\$ 1,170,870

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(7) Concentrations - Continued

(a) Credit Risk - Continued

Cash and receivables have been adjusted to reflect the current exchange rate of the U.S. dollar at December 31, 2019 and 2018. A risk of change in foreign currency rates will remain until the cash is converted to U.S. dollars or receivables are settled. This risk is not considered material to the Consortium's overall consolidated financial statements. Gains and losses that result from remeasurement are included in income. The effects from foreign currency translation were losses of \$84,791 and \$41,802 during 2019 and 2018, respectively.

Event receivables at December 31, 2019 include approximately \$872,000 of receivables due from two significant customers.

Event receivables at December 31, 2018 include approximately \$417,000 of receivables due from two significant customers.

(b) Vendors

During 2019 and 2018, the Consortium utilized one vendor for a significant portion of operations related to test delivery. During 2019 and 2018, the consortium paid this vendor approximately \$5.3 million and \$4.8 million, respectively. Approximately \$470,000 and \$485,000 was payable to this vendor as of December 31, 2019 and 2018, respectively.

(8) Valued-Added Taxes

The Consortium has recorded a liability for value-added tax for services sold in foreign countries. The bulk of services are sold through independent training partners, which insulate the Consortium from value-added tax exposure. However, there is a portion of services provided that are not provided through independent training partners and an accrual has been recorded as an estimate of tax exposure in these foreign countries. There may be additional foreign tax jurisdictions that may assess taxes to the Consortium.

In areas where the Consortium collects and remits tax, revenues are recorded net of tax.

Value-added taxes for the years ended December 31, 2019 and 2018 consist of the following:

	2019	2018
United Kingdom value-added tax	\$ 24,377	282
	\$ 24,377	282

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(8) Valued-Added Taxes - Continued

The tax accrual for value added taxes at December 31 is as follows:

	<u>2019</u>	<u>2018</u>
United Kingdom value-added tax	\$ 96,507	212,568
Other unidentified foreign taxes	<u>370,000</u>	<u>290,000</u>
	<u>\$ 466,507</u>	<u>502,568</u>

As the Consortium continues to expand and to administer examinations and provide training in foreign countries, there will be tax exposure to the Consortium. Management is in a continual process of evaluating that exposure and has set aside a reserve of approximately \$370,000 for unidentified tax liability at December 31, 2019. While the Consortium believes that this reserve is sufficient to cover unidentified tax liabilities as of December 31, 2019, there is the potential for additional unrecognized tax consequences.

(9) 401(k) Retirement Plan

The Consortium sponsors a 401(k) retirement plan covering substantially all employees meeting certain service requirements. The Consortium makes discretionary safe harbor contributions which vest immediately. Contributions to the plan were \$731,557 and \$479,136 for the years ended December 31, 2019 and 2018, respectively.

(10) 457 Non-Qualified Deferred Compensation Plans

Effective November 15, 2015, the Consortium adopted a non-qualified Deferred Compensation Benefit Plan, as described in Section 457(b) of the Internal Revenue Code, for four key management employees designated by the Board of Directors and CEO. The 457 (b) plan operates on a calendar-year basis, whereby the participants are eligible to make contributions to the accounts up to a maximum amount mandated by the Internal Revenue Code. The funds set aside for the 457(b) plan remain assets of the Consortium, and are available to satisfy the claims of all general creditors of the Consortium until such time as the participant withdraws the funds in accordance with plan provisions.

As of December 31, 2019, the assets and corresponding liabilities of the 457(b) plan in the amount of \$195,210 are recorded in investments and deferred compensation in the accompanying consolidated statement of financial position.

**INTERNATIONAL INFORMATION SYSTEM SECURITY CERTIFICATION
CONSORTIUM, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements - Continued

(11) Operating Leases

The Consortium has several leases for office space with expiration dates through August 2023. Rent expense for these leases totaled \$1,748,660 and \$1,607,501 in 2019 and 2018, respectively.

Future minimum lease obligations are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 1,565,842
2021	1,191,173
2022	1,223,169
2023	<u>671,457</u>
	<u>\$ 4,651,641</u>

The Consortium also has lease agreements for various office equipment and office space that are payable on month-to-month terms.

Total operating lease expense for the years ended December 31, 2019 and 2018, excluding amounts for office space, totaled \$122,109 and \$95,561, respectively.

(12) Future Amortization of Intangible Assets

Intangible assets at December 31, 2019 consist of examination question pool costs. The estimated future amortization expense for these intangible assets is as follows:

<u>Year Ending December 31,</u>	
2020	\$ 1,726,329
2021	1,155,953
2022	<u>439,741</u>
	<u>\$ 3,322,023</u>

(13) Legal Matters

From time to time the Consortium is involved in legal matters that arise in the ordinary course of business. Management does not believe that the ultimate resolution of these matters will have a material impact on the Consortium's consolidated financial position or change in net assets.



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