

### **1. Financial Health of the Internet Society**

The financial health of the Internet Society continues to be good. The CEO and her team comprised of the Chief Financial Officer, the Finance Committee, the Internet Society’s Board, and the Executive Team followed the successful blueprint in 2015 and executed within a sustainable \$39M USD financial envelope. As was the case in 2015, both strategic plans as well as spending have been adjusted to fit within this financial boundary.

The Internet Society’s 2015 operating surplus was approximately \$976K USD; the majority of the surplus was due to higher IETF revenue and under spending of staff costs. Despite exceeding the benchmark and being within the investment allocation outlined in Internet Society’s Investment Policy, there were investment losses of \$137K USD. Likewise, there was a currency exchange loss of \$30K USD.

### **2. Continuity Fund**

Preserving and growing the capital in the Continuity Fund balance is a key focus of the Committee. However, this year the Continuity Fund incurred a loss of 1.6%, but this return exceeded the benchmark, which had a loss of 2.33%, and was within the investment allocation outlined in Internet Society’s Investment Policy. The current balance is \$14.3M.

Following 2014-2015’s Finance Committee’s recommendations, the staff produced a report that reviewed the Continuity Fund’s purpose and recommended that a Reserve Policy be adopted to specifically document the conditions under which the Continuity Funds may be accessed, and the process to do so as well as a revised reserve target and proposal for immediately reaching this target. More information is provided based on a later agenda.

### **3. Special Non-Recurring Fund**

The Committee is also focused on preserving the \$10M of capital that was transferred to the Internet Society by PIR, and maintaining these funds in such a way that they can be used fairly readily by the Internet Society, at the Board’s direction. This has necessitated keeping the funds invested in highly liquid assets rather than in a manner which could focus on growing the funds over a longer-term or taking on the risk of capital reduction that may come from speculative investments that are more acceptable over the long-term. These funds continued to be invested in very short-term (generally bond instruments with less than 3-year maturity).

The Board has previously approved the use of \$1,695,500 for the Branding Campaign (over two years) and \$1,447,500 for the Three-Year Technology Improvement Plan; as of December 2015, the remaining balances are ~\$1.37M and ~\$1.24M, respectively.

#### 4. **Board Expenses**

In 2015, the Board overshot its budget by 40% (~\$134K) due to higher than expected travel for the InterCommunity2015 event and September retreat, as well as the unusual pattern of three Board meetings in the Asia Pacific region.

#### 5. **Financial Staff & Processes**

There have been no significant changes in accounting processes or policies, and there has been no change in the finance staff.

The process to develop the 2016 Budget followed the 2015 procedure, which flows from the 2016 Action supported by high level financial plan, conservative funding source projections, and controlled spending plans (including tracking of program expenses) all with a focus on staffing plans. Note that no additional Board-directed fund requests were approved in the 2016 budget.

#### 6. **Banking Change**

The Internet Society completed a transition of their credit card processor to HSBC Bank, which is more internationally recognized by vendors.

#### 7. **Public Interest Registry**

ISOC finance staff continues to work closely with PIR finance and accounting staff. The Internet Society Board Finance and PIR Finance Committees have also held joint meetings to monitor both PIR's OnGood Brand Identity and Enset registrar 1<sup>st</sup> year's progress.

#### 8. **Continuing Strategic Financial Advice**

- *Reliance On and Growth of PIR Revenues:* Revenues from PIR continue to represent our largest revenue source, at 75% or more of gross revenues. Those revenues are forecast to be flat in the coming years. It is important to the continued health of ISOC that we not become overly reliant on any single source of revenue. Since 2011 there has been steady improvement here. Nevertheless, ISOC should improve the focus on revenue diversification, particularly as the growth in revenues from PIR is projected to level off at \$29.5M annually. Revenue diversification and revenue growth should be a key area of focus.
- *Trend of Revenues vs. Expenses:* In the past, the Board was concerned that expenses were growing faster than revenues. Expenses should continue to be monitored with an intermediate-term expectation of flat revenues (see PIR above).

#### 9. **Finance Committee Meetings**

The Committee held four regularly scheduled meetings in the past Board calendar year to review quarterly financials, plus several special meetings to work with staff on the 2016 budgets, as well as special meetings with investment advisors. The minutes of the regular committee meetings are posted on the public website

(<http://www.internetsociety.org/who-we-are/board-trustees/committees/minutes>).

#### **10. Recommended Priorities for the Next Finance Committee**

- Continue the process used successfully for development of the annual budget beginning in FY2015.
- Formally adjust, by Board resolution, the investment targets for the Continuity Fund. Recommend that this bring the Continuity Fund to its approved level through use of unallocated Board Designated Funds (those additional funds received from PIR in 2012).
- Work with the Board and Executives to develop goals for the IETF Endowment funds, as these are expected to grow significantly in the coming years.
- Continue joint meetings with PIR’s Finance Committee.
- Monitor the Business Review progress as it is expected to yields more accurate budget tracking and forecasting.
- Establish criteria to determine the appropriate level of reserves held by PIR, and establish an annual review process and practice to sweep funds into ISOC’s non-recurring funds.