

July 8, 2019

# Finance Committee Report

## For 2018-2019

### Contributors

Gonzalo Camarillo	Finance Committee Member
Olga Cavalli	Finance Committee Member
Hans-Peter Dittler	Finance Committee Member
Robert Pepper	Finance Committee Member
Sean Turner	Finance Committee Member
Sandy Spector	Chief Financial Officer
Richard Barnes	Finance Committee Chair

## Committee Members

The committee members during the 2018-2019 board year were:

Richard Barnes (ex-officio from March 26, 2019; member all year)

Gonzalo Camarillo

Olga Cavalli

Hans-Peter Dittler

Robert Pepper

Andrew Sullivan (ex-officio)

Sean Turner (ex-officio until March 26, 2019; member all year)

Sean Turner resigned as ISOC Treasurer (and thus ex-officio member and chair of the Finance committee) on March 26, 2019. On that same day, Richard Barnes began serving as ISOC Treasurer, having been previously elected by the board.

## Meetings

August 19, 2018

November 26, 2018

February 4, 2019

April 23, 2019

## Treasurer / CFO Catch-up Calls:

April 25, 2019

May 30, 2019

July 3, 2019

## Financial Health of the Internet Society

The financial health of the Internet Society continues to be good. Over the course of 2018, the CEO and Executive Team executed well within the a roughly \$42M USD budget.

The Internet Society's net surplus for 2018 was approximately \$394K USD. Revenues were slightly under budget, driven largely by a significant shortfall in membership revenue (~37% less than budgeted). Expenses were also under budget due to underspending across several categories, the largest of which was personnel.

## New Investment Manager and Investment Policy

Following an RFP process overseen by the Committee in early 2018, Goldman Sachs was selected as the Internet Society's new investment advisor. From their onboarding in late 2018 through into 2019, the Committee has worked with Goldman Sachs to establish investment goals for the various funds. As part of this work, the Committee approved revised Investment Policies for the Internet Society and the Internet Society Foundation. Further development of these policies will need to continue through 2019, in particular, the establishment of clear guidelines with regard to environmental, social, and governance (ESG) investing.

## Special Funds

*Continuity Fund* - Preserving and growing the capital in the Continuity Fund remains a key focus of the Committee. As of March 31, 2019, the balance of the Continuity Fund stood at \$19.5M USD, a gain of 5.4% over the previous year. Based on Board resolution 2016-29, which established a Continuity Fund target of \$16M USD, no further infusion of funds is needed.

*Special Non-Recurring Fund* - For several years, the Committee oversaw the use of the \$10M USD of capital that was transferred to the Internet Society by PIR in 2014 for various Board-directed purposes focused enhancing the Internet Society's infrastructure. As of January 1, 2019, this pool of capital has been spent and the fund has been closed.

*IETF Endowment Fund* - There have been no further material contributions or expenditures from this fund since the Committee's last report, and no major change in investment strategy. As of March 31, 2019, the balance of the fund is \$2.68M USD.

*PIR Contribution Excess* - PIR's 2018 contribution to ISOC exceeded the budgeted amount by around \$10.4M USD. These funds were designated by the Board to serve as an IETF LLC reserve fund, and were transferred to the LLC on January 1, 2019.

## Board Expenses

In 2018, the Board over-spent its budget by ~1% (~\$3K USD). The board is likely to end up significantly over budget in 2019, due to having four in-person meetings of which two are in the Asia/Pacific region.

## Financial Staff & Process

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 2020 budget will be somewhat different from previous years, taking a more “bottom up” approach. Rather than setting overall budgets based on a high-level action plan whose details are worked out during the budget year, the 2020 budget will start with more detailed project proposals, which will be aggregated into a top-level budget.

## Public Interest Registry

ISOC finance staff continues to work closely with PIR finance and accounting staff.

## Continuing Strategic Financial Advice

*Reliance on PIR Revenues* - Revenues from PIR continue to represent our largest revenue source, at 78% or more of gross revenues. These revenues have increased as a result of the renegotiation of PIR’s backend provider contract which was signed in 2017. Despite the continued robustness of PIR revenue, the Internet Society should focus on revenue diversification and growth of non-PIR revenue sources.

*Trend of Revenues vs. Expenses* - In the past, the Board was concerned that expenses were growing faster than revenues. Even though PIR revenue is increasing, the continuing softness of non-PIR revenue, combined with the public support test, will limit the amount of PIR revenue that ISOC can leverage. So there is a continued need monitor expenses.

## Recommended Priorities for the Next Finance Committee

1. Monitor and support the implementation of the new annual budgeting process
2. Work with Goldman Sachs to develop policies guiding the investment of Internet Society funds
3. Continue joint meetings with PIR’s Finance Committee.

