

July 1, 2020

# Finance Committee Report

## For 2019-2020

### 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 2019-2020 board year were:

Richard Barnes

Gonzalo Camarillo

Olga Cavalli

Hans-Peter Dittler

Robert Pepper

Andrew Sullivan (ex-officio)

## Meetings

August 14, 2019

November 1, 2019

February 24, 2020

April 24, 2020

## Treasurer / CFO Catch-up Calls:

October 11, 2019

November 13, 2019

January 29, 2020

April 17, 2020

## 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 \$38M USD budget.

The Internet Society's net surplus for 2019 was approximately \$7M, comprising a roughly \$4.6M operating surplus, roughly \$2.6M in interest and investment returns, and \$846kUSD in excess contribution from PIR. Non-PIR revenue was slightly below budget, but this was offset by under-spending across several categories, most significantly personnel. All in all, expenses were roughly \$6M below budget.

## Special Funds

*Continuity Fund* - Preserving and growing the capital in the Continuity Fund remains a key focus of the Committee. As of March 31, 2020, the balance of the Continuity Fund stood at \$19.35M USD, a loss of 0.7% 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.

*IETF Endowment Fund* - This fund was transferred to the IETF LLC in Q3 2019.

*PIR Contribution Excess* - PIR's 2019 contribution to ISOC exceeded the budgeted amount by around \$850k USD. These funds have been transferred to reserves and can be designated for use by the board.

## Board Expenses

In 2019, the Board under-spent its budget by ~1% (~\$3K USD). The board is likely to end up significantly under budget in 2020, since in-person board meetings have been cancelled due to COVID-19.

## PIR Sale

In Q4 2019, ISOC and PIR entered into an agreement with Ethos Capital that would convert PIR to a for-profit entity and sell it to Ethos for \$1.135B USD. Ultimately, the transaction was not consummated, due to ICANN withholding its consent. While the transaction was pending, ISOC finance staff provided significant support, including developing of plans for investing the sale proceeds (in consultation with Goldman Sachs) and keeping the finance committee apprised of relevant events. Through the end of Q1 2020, ISOC has paid \$3.93M in professional and legal fees related to the PIR transaction.

## 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 2021 budget process will follow the same "bottom up" approach as was followed in 2020.

Changes in ISOC's execution strategy as a result of COVID-19 are expected to have significant impacts on the 2020 financial picture. The finance staff are working with the broader leadership team to develop an update to the 2020 budget to reflect these realities.

## Public Interest Registry

ISOC finance staff continues to work closely with PIR finance and accounting staff. Joint meetings of the PIR and ISOC finance committees, which had been held in the past, were not held in this board year.

## Continuing Strategic Financial Advice

*Under-performance of non-PIR Revenues* - Revenues from PIR continue to represent our largest revenue source, comprising 83% or more of gross revenues. This percentage has increased lately, as efforts to raise non-PIR revenue have continued to miss their targets. In 2018, non-PIR revenue was roughly \$7.5M, with a budget of roughly \$8M. In 2019, with a more modest \$4.2M budget target, non-PIR revenue was only \$2.9M. If ISOC's non-PIR revenue continues to fall, there is a real risk that ISOC's overall budget will have to shrink in order to make PIR revenue an acceptable fraction of the whole.

*Trend of Revenues vs. Expenses* - In the past, the Board was concerned that expenses were growing faster than revenues. The past 2 years have both seen significant under-spending, which we expect to accelerate in 2020 due to COVID-related cost savings (e.g., unused travel budget). The board and finance staff should continue to adapt financial plans in response to these shocks to ensure that ISOC's resources are effectively deployed to advance the mission.

## Recommended Priorities for the Next Finance Committee

1. Monitor and support the process of updating financial plans to reflect post-COVID realities
2. Continue the process used successfully for development of the annual budget
3. Work with Goldman Sachs to refine policies guiding the investment of Internet Society funds and monitor fund performance
4. Resume joint meetings with PIR's Finance Committee.

