IETF Administration, LLC

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Audit Committee
IETF Administration, LLC

Report on the Financial Statements
We have audited the accompanying financial statements of IETF Administration, LLC (IETF), which comprise the balance sheet as of December 31, 2019, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of IETF as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

McLean, Virginia
May 18, 2020

IETF Administration, LLC

Balance Sheet
December 31, 2019

Assets	
Cash	$ 8,040,028
Investments	17,139,666
Accounts receivable	397,371
Promises to give, net	659,412
Prepaid expenses	420,587
Due from related party	37,196
Property and equipment, net	445,540
Total assets	$ 27,139,800
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 133,384
Deferred revenue	741,724
Total liabilities	875,108
Net assets:	
Withour donor restrictions	18,663,962
With donor restrictions	7,600,730
Total net assets	26,264,692
Total liabilities and net assets	$ 27,139,800

See notes to financial statements.

IETF Administration, LLC

Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Contributions	$ 17,192,814	$ 2,586,935	$ 19,779,749
Registrations and meetings	3,943,452	-	3,943,452
Investment income, net	431,149	16,291	447,440
Other	17,688	-	17,688
Net assets released from restrictions	5,002,496	(5,002,496)	-
Total revenue and support	26,587,599	(2,399,270)	24,188,329
Expenses:			
Program services:			
Technology and standards development	3,735,558	-	3,735,558
Education and outreach	1,398,347	-	1,398,347
Supporting services:			
General and administrative	2,171,585	-	2,171,585
Information technology	693,147	-	693,147
Total expenses	7,998,637	-	7,998,637
Change in net assets	18,588,962	(2,399,270)	16,189,692
Net assets:			
Beginning	75,000	10,000,000	10,075,000
Ending	$ 18,663,962	$ 7,600,730	$ 26,264,692

See notes to financial statements.

IETF Administration, LLC

Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities:	
Change in net assets	$ 16,189,692
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	349,739
Net realized and unrealized gain on investments	(137,250)
Contributions restricted for investment in perpetuity	(2,461,935)
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(397,371)
Promises to give, net	4,340,588
Prepaid expenses	(420,587)
Due from related party	(113,703)
(Decrease) increase in:	
Accounts payable and accrued expenses	133,384
Deferred revenue	741,724
Net cash provided by operating activities	18,224,281
Cash flows from investing activities:	
Proceeds from sales of investments	6,078,790
Purchase of investments	(23,081,206)
Purchase of property and equipment	(795,279)
Net cash used in investing activities	(17,797,695)
Cash flows from financing activities:	
Contributions restricted for investment in perpetuity	2,461,935
Net cash provided by financing activities	2,461,935
Net increase in cash	2,888,521
Cash:	
Beginning	5,151,507
Ending	$ 8,040,028
Supplemental disclosure of noncash operating activities:	
Accounts receivables, prepaid expenses, accrued expenses, accounts payable and deferred revenue transferred from Internet Society	$ 623,671
Supplemental disclosure of noncash investing activities:	
Property and equipment transferred from Internet Society	$ 537,330

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: IETF Administration, LLC (IETF) was formed under the laws of the Limited Liability Company act of the State of Delaware as a single-member limited liability company of the Internet Society (ISOC), a Washington, D.C. nonprofit corporation that has been recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended and is classified as a public charity. IETF's purpose under its organizing documents are limited to activities consistent with a 501(c)(3) organization. IETF's mission is to make the Internet work better by producing high quality, relevant technical documents that influence the way people design, use and manage the Internet.

A summary of significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: Due to IETF's limited purpose consistent with an organization organized as a nonprofit entity, IETF's financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the ASC, IETF is required to report information regarding its balance sheet and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Use of estimates: The preparation of the financial statements 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial risk: IETF maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. IETF has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

IETF invests in professionally managed portfolios that contain various securities. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments: Investments are reported at their fair values in the balance sheet. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expenses. Cash held in money market funds within investment portfolio are held at cost and classified as investments.

Accounts receivable: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Based on management's evaluation of the collectability of accounts receivable, IETF considered accounts receivable to be fully collectible. There was no allowance for doubtful accounts recorded for the year ended December 31, 2019.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Promises to give: Unconditional promises to give are recognized as support in the period that IETF is notified of the contribution by the donor and acknowledged and identified by the donor. Unconditional promises to give are initially recorded at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Promises to give to be collected after one year are discounted at an appropriate discount rate commensurate with the risks involved. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. Based on management's evaluation of the collection of the promise to give, there was no provision for doubtful accounts at December 31, 2019.

Property and equipment: Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally three years. The cost of maintenance and repairs is recorded as expenses are incurred. IETF's policy is to capitalize all property and equipment over $5,000.

Revenue recognition: IETF's revenue streams under contracts with customers are comprised of registrations and meetings fee for conference event services. Fees for registrations and meetings are recognized when a given performance obligation is satisfied, when conference event takes place. All of IETF's revenue under contracts with customers is earned in the United States. Deferred revenue represents the unearned portion of revenue related to the future conference registrations and meetings.

Contributions: Unconditional contributions are recognized as support when the promise is received. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions. Restrictions that are met by IETF in the year in which they were received are recognized as unrestricted support.

Income taxes: IETF is single member LLC, a nonprofit organization exempt under the provision of Section 501(c)(3) of the Internal Revenue Code. It is a disregarded entity for tax reporting purposes.

Adopted accounting pronouncement: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. This ASU was adopted using the modified retrospective method by IETF in 2019. The adoption of this ASU had no significant impact to IETF.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where IETF is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. The adoption of this ASU had no significant impact to IETF.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is evaluating the impact of adoption, if any, to the financial statements.

Subsequent events: IETF has evaluated subsequent events through May 18, 2020, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments at December 31, 2019, consist of the following:

Mutual funds	$ 5,999,945
Cash deposits held at cost	11,139,721
	$ 17,139,666

Investment income for the year ended December 31, 2019, consists of the following:

Interest and dividends	$ 310,190
Unrealized and realized gain	137,250
	$ 447,440

IETF paid no investment fees for the year ended December 31, 2019.

Note 3. Promises to Give

Promises to give to be collected in more than one year from the date of the donor's commitment are measured using the present value of future cash flows based on a discount rate of 3%. Promises to give at December 31, 2019, consists of the following:

Less than one year	$ 112,360
One to five years	673,722
	786,082
Less discount to net present value	126,670
	$ 659,412

Note 4. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires disclosure that establishes a framework for measuring fair value in U.S. GAAP and expands disclosure used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

This topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs not corroborated by market data.

In determining the appropriate levels, IETF performs a detailed analysis of the assets and liabilities that are subject to the accounting standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets or liabilities held by IETF at December 31, 2019.

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2019:

	Total	Level 1
Mutual funds:		
Large blend	$ 1,646,889	$ 1,646,889
Intermediate bond	1,601,755	1,601,755
Short-term bond	923,975	923,975
Foreign large blend	871,813	871,813
High yield bond	508,169	508,169
Small blend	291,598	291,598
Diversified emerging markets	155,746	155,746
Total mutual funds	5,999,945	5,999,945
Total assets held at fair value	$ 5,999,945	$ 5,999,945

Mutual funds are classified as Level 1 instruments, as they are actively traded on public exchanges and valued based on quoted market prices.

At December 31, 2019, IETF had cash and deposits of $11,139,721 held temporarily in its investment portfolio. These are held at cost and are not included in the table above.

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2019, consist of the following:

Software	$	218,818
Computer equipment		576,461
		795,279
Less accumulated depreciation		349,739
	$	445,540

Depreciation expense for the year ended December 31, 2019, was $349,739.

Note 6. Net Assets With Donor Restrictions

IETF follows the Codification subtopic, Reporting Endowment Funds. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, IETF classified as net assets with donor restrictions that are permanent in nature: (a) the original value of permanently restricted cash contribution; and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible promises. The remaining portion of donor-restricted cash contributions remain in the restricted endowment until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, IETF considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- General economic conditions
- Possible effect of inflation or deflation
- Expected tax consequences, if any, of investment decisions or strategies
- Role that each investment or course of action plays within the overall investment portfolio of the fund
- The expected total return from income and the appreciation of investments
- Needs of the Endowment to make distributions and preserve capital
- An asset's special relationship, if any, to the charitable purposes of the Endowment

Investment policy: IETF invests all endowment funds, as well as other invested funds, in a fund managed by an investment manager according to the objectives and guidelines of IETF's investment policy. IETF's overall objective is to outperform inflation while minimizing potential losses. At least annually, IETF's Board of Trustees will review investment objectives to determine their continued applicability. Ultimate authority and responsibility for the financial policies rest with the Board.

Spending policy: IETF may appropriate for expenditure in its annual budget a percentage of the earnings. There may be times when IETF may opt not to take the spending rate but rather to reinvest some or all of the annual income.

Note 6. Net Assets With Donor Restrictions (Continued)

Changes in net assets with donor restrictions during the year ended December 31, 2019, are as follows:

	December 31, 2018	Additions and Endowment Earnings	Released	December 31, 2019
Time restricted:				
ISOC – Annual Funds	$ 10,000,000	$ -	$ 5,000,000	$ 5,000,000
Nokia sponsorship	-	125,000	-	125,000
Total time restricted	10,000,000	125,000	5,000,000	5,125,000
Purpose restricted:				
Endowment earnings	-	16,291	2,496	13,795
Restricted for perpetuity:				
IETF Endowment	-	2,461,935	-	2,461,935
	$ 10,000,000	$ 2,603,226	$ 5,002,496	$ 7,600,730

IETF's endowment funds and fund activity for the year ended December 31, 2019, consist of the following:

	With Donor Restrictions
Endowment net assets, beginning of year	$ -
Contributions	2,461,935
Investment income	16,291
Appropriations	(2,496)
Endowment net assets, end of year	$ 2,475,730

Note 7. Related Party Transactions

ISOC is the sole member of IETF. IETF entered into an agreement with ISOC when IETF formed separate legal entity during 2018. Under the agreement, ISOC transferred all of the assets attributable to IETF and will fund two installments of $5,000,000 for IETF's fiscal years ending December 31, 2019 and 2020, which are to be used as a general operating fund for IETF.

In addition to the amounts described above, ISOC transferred full funds that make up IETF endowment which amounted to $2,602,092 for the year ended December 31, 2019.

The CFO of ISOC and IETF's board chair will re-assess if additional funding is needed and will be completed by September 1, 2020.

During the year ended December 31, 2019, IETF recognized contribution revenue of $24,459,529 for the transfer of accounts receivables, prepaid expenses, investments, property and equipment, accounts payable, deferred revenue and cash, received from ISOC which is presented on the statement of activities.

Note 8. Liquidity

IETF regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019, the following financial assets are available to meet annual operating needs of the 2020 fiscal year:

Financial assets at year end:		
Cash and cash equivalents	$	8,040,028
Investments		17,139,666
Accounts receivable		397,371
Promises to give, net		659,412
Total financial assets	$	26,236,477
Less amounts not available to be used within one year:		
Net assets with donor restrictions		7,600,730
Financial assets available to meet general expenditures over next twelve months	$	18,635,747

Note 9. Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis. Expenses that can be identified with a specific program or support service are charged directly, according to their natural expenditure classification. IETF charges all expenses directly to functional classifications where it is benefited and there were no expense allocation during the year ended December 31, 2019.

IETF's analysis of expenses by function and nature for the year ended December 31, 2019, is as follows:

	Program Services		Supporting Services		
	Technology and Standards Development	Education and Outreach	General and Administrative	Information Technology	Total
Conference and meetings	$ 3,107,301	$ 8,000	$ -	$ -	$ 3,115,301
Professional services	-	1,261,756	1,999,676	658,836	3,920,268
Travel and entertainment	357,094	-	42,591	-	399,685
Depreciation and amortization	268,724	63,333	17,683	-	349,740
Contributions to affiliate	-	65,258	-	-	65,258
Banking and insurance	-	-	54,537	-	54,537
Marketing and sponsorship	-	-	41,980	-	41,980
Software and storage	2,140	-	9,422	30,295	41,857
Office and other expenses	299	-	1,079	4,016	5,394
Occupancy	-	-	2,417	-	2,417
Professional development and related	-	-	2,200	-	2,200
Total expenses	$ 3,735,558	$1,398,347	$ 2,171,585	$ 693,147	$ 7,998,637

Note 10. Subsequent Events

In January 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and in March 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact IETF’s activities. Management is continually monitoring the impact of COVID 19 and will adjust activities should there be a significant impact on the economy.