

Accounting Policy

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BACKGROUND INFORMATION

Purpose

This policy sets out the accounting system, processes, responsibilities and controls of the IETF Administration LLC (IETF LLC).

Tax Status

The IETF LLC is organized and operates exclusively in compliance with the restrictions on organizations qualifying under the 501(c)3 code:

- No part of the net earnings of the IETF LLC may inure to the benefit of any private shareholder or individual.
- No substantial part of the activities of the IETF LLC may consist of the carrying on of propaganda or of attempting to influence legislation (lobbying).
- The IETF LLC may not participate in, or intervene in, any political campaign on behalf of any candidate for public office.

Definitions

This policy defines and uses the following roles:

- Accountant. The person, team or organisation that is responsible for
 - maintaining the process of record and file keeping
 - providing specialist financial expertise and knowledge, including of all relevant legislation
 - producing financial reports.

Fiscal Year

The fiscal year is aligned with the calendar year, beginning 1 January and ending 31 December each year.

ACCOUNTING PRINCIPLES & PROCEDURES

Internal Controls

The IETF LLC will implement strong financial controls, necessary for the sound management of its finances. These internal controls are documented in this manual and may also appear in other policies such as the Code of Conduct and Travel & Expenses policy.

The details of the controls specified in this policy and any non-financial internal controls are documented in the Delegated Authorities.

It is understood that the small size of the IETF Administration LLC may require internal controls that are not as segregated as would be possible in a larger organization. However, this should not be an excuse for poor practices.

The IETF Executive Director is responsible for:

- reviewing the controls after any failure or almost failure of the controls and after any significant change in personnel or operating practices
- ensuring that the internal controls are followed
- ensuring that the internal controls are correctly documented in this policy and in the Delegated Authorities.

The Board is responsible for:

- approving this policy and the controls listed
- approving the Delegated Authorities.

Applicable Laws

The accounting principles of the IETF LLC are consistent with all applicable laws. The IETF LLC follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Recognition of Contributions

Generally speaking, contributions will be recorded as revenue in the period it is intended rather than the years funds are received. However, some unconditional contributions may be restricted for purpose or time by the donor; as such, the revenue on such contributions will be recognized in the period received as restricted and will be released from restriction as donor-imposed purpose or time restrictions are satisfied.

Furthermore, contributions received for meeting sponsorship are deemed to be conditional because:

1. there is an explicit contractual requirement to hold the meeting and;
2. there is an implied right of refund of contributed funds if the meeting is not held.

Conditional contributions will be recognized as revenue as contractual requirements are satisfied.

If the specific sponsorship agreement indicates that IETF LLC can keep the contributed funds even if the event does not take place, then there is no right of refund/return and the contribution will be treated as unconditional and unrestricted for purpose/time.

Matching of Revenues and Expenses

In order to present accurate and consistent financial statements, the revenues and expenses attributable to each period will be reflected in that period to the degree possible. The sections below on month and year-end procedures review this in greater detail. Generally, all entries required to accurately reflect the revenues and expenses of each period will be made in that period.

Transactions are recorded on the accrual basis of accounting.

Donated Materials and Services

Donated materials, assets and services will be recorded in the accounting records if they meet either of the following criteria:

1. They create or enhance a nonfinancial asset or;
2. They require specialized skills, are provided by entities or persons possessing those skills, and would be purchased if they were not donated

Donated assets or services will be recognized at the fair market value upon receipt.

Donated services that are professional services which we would otherwise have paid for and which were provided by a person whose work would normally include providing those services, will be recorded as revenues and expenses.

Any donated assets which would meet the definition to be capitalized, outlined in this policy, will be recorded as revenue and as a fixed asset.

Access to Records

The financial records of IETF LLC are generally open to public inspection due to IRS rules, open records laws and the company value of transparency.

However, certain records are not open to public examination and may only be released with the permission of the IETF Executive Director. Questions in this area are to be resolved by the IETF Executive Director.

Financial statements, budgets and other financial information will be posted on the IETF Administration LLC website.

CAPITAL

Reserves

Purpose and Target Amount of Reserves

IETF LLC will build and maintain an operating reserve to assist in maintaining financial stability. The target amount for the operating reserve will be enough funds to cover two IETF meetings and general operating expenses.

Management of Reserves

The operating reserve will be held separately from other funds of the LLC. The reserve is to be invested consistent with the Investment Policy. Any income from the reserve fund is to be reinvested in that fund unless the Board decides otherwise.

During the annual budgeting process, the Board will review the target amount of the operating reserve and may update as needed.

The IETF Executive Director will maintain the operating reserve bank account as directed by the Board.

Donor-Restricted Funds

Management of Donor-Restricted Funds

The IETF LLC must ensure compliance with any conditions imposed on donor-restricted contributions.

The IETF Executive Director will be designated as IETF LLC compliance officer with respect to donor-restricted funds and will be responsible for overseeing compliance with all applicable grant restrictions.

The IETF Executive Director will be responsible for communicating the nature of all donor restrictions to the Accountant. This Accountant will ensure that the General Ledger restricted donations account reflects the restricted donations and the spending of those restricted amounts, as appropriate.

Reporting of Donor-Restricted Funds

The Accountant in connection with the IETF Executive Director will maintain a record of all restricted donations received so that periodic reports of the year's cumulative restricted donations can be produced. When a restriction has been satisfied, it will be recorded. If appropriate, the IETF Executive Director will be responsible for communicating the satisfaction of the restriction to the donor.

The Accountant will provide regular reports for the IETF LLC showing how much donor-restricted funds have been received, how much have been spent, how much remains to be spent and any over-expenditure.

Endowment Net Assets

The designation of any portion of an endowment as restricted or unrestricted net assets will be made based on the endowment agreement and the donor's intent. Unrestricted net assets may be designated for specific purposes by resolution of the Board and will be specified accordingly in the financial statements as 'Board-designated net assets'.

Debt

Required Controls

Controls must be in place and documented in the Delegated Authorities that determine:

- who is authorised to incur any debt on behalf of IETF LLC, other than ordinary business credit
- who is authorised to agree any loan covenants or restrictions

Debt Covenants and Restrictions

Any loan covenants and restrictions will be reported to the Board when the debt is authorized.

The IETF Executive Director will periodically review these covenants and report to the Board if there are any violations or potential violations of the covenants.

Accounting Reconciliation of Debt

The Accountant will reconcile the general ledger debt balances to statements or amortization schedules each month. In addition, accrued interest will be recorded in the general ledger as needed.

Fixed Assets

Capitalisation

All fixed assets costing in excess of \$5,000 will be recorded as an asset. All other assets are expensed.

Depreciation

All fixed assets will be stated at cost and depreciated according to applicable accounting rules. The straight-line basis will be used, with depreciation charged beginning in the month that the asset is placed in service.

Management of Fixed Assets

The IETF Executive Director will maintain a list of all fixed assets owned by the IETF Administration LLC. This list will contain sufficient information for management, insurance and grant requirements.

The fixed asset list will be consulted prior to the sale of any item to determine if there are restrictions.

CONTROLLED ACTIVITIES

Banks Accounts and Investment Accounts

Required Controls

Controls must be in place and documented in the Delegated Authorities that determine:

- who is authorised to open or close any bank or investment account
- who is authorised to transfer money between accounts of any type
- who is authorised to purchase or invest in any new financial instrument

Accounts

IETF LLC will maintain an investment account in accordance with the Investment Policy.

The IETF LLC maintains the following accounts for operations and investment purposes in accordance with the Limited Liability Company Agreement with the Internet Society:

- Bank Checking Account. For paying all bills and invoices.
- Bank Savings Account. Used to replenish checking account as needed
- Investment Manager Custodial Accounts. For reserve funds and the IETF Endowment.

Management of Cash

Cash not needed for immediate working capital will be transferred to an interest bearing account, unless the funds are designated for a particular account (e.g. donations to the IETF Endowment).

The IETF Executive Director and Accountant are responsible for ensuring that the checking account has sufficient funds to meet scheduled payments, transferring funds from savings to checking as needed. The Treasurer is to be notified in writing of all transfers between accounts.

FDIC Coverage

IETF Administration LLC may maintain an account balance at any one bank in excess of the FDIC's coverage.

Bank Reconciliation

The bank statements are to be reconciled by the Accountant on at least a monthly basis. The balance of the reconciled bank statements must agree with the general ledger balance on at least a monthly basis.

The Accountant will send bank reconciliations and adjusting journal entries every month for the IETF Executive Director to review, who will confirm in writing that they have been reviewed and approved. This written approval will be retained by the Accountant for internal control documentation purposes.

Payments and Receipts

Required Controls

Controls must be in place and documented in the Delegated Authorities that determine:

- the payment authorization limits of each role
- any requirements for multiple people to authorize a single payment
- who can authorize a payment for whom
- the limits on contract execution/renewal of each role

Authorizing Payments

The following positions can authorize payments:

- IETF Executive Director
- Board Treasurer
- Board Chair
- Any other Director or staff member so authorized by the Board.

Individuals may not authorize a payment to themselves.

Accounts Payable

The IETF LLC pays accounts payable on a timely basis and within payment terms agreed with or required by each vendor, with the default of Net 30.

Incoming invoices submitted for payment must be reviewed and approved by the IETF Executive Director prior to payment.

The IETF Executive Director must review and approve the bank account to be used for payment of all new vendors and any changed bank accounts, unless that data is maintained directly by the vendor.

All supporting documentation for a payment, including but not limited to, invoice copies, vendor contracts, payment history, and correspondence between the Accountant and IETF Executive Director is to be retained.

Expenses Payments

All expenses payments must be made in line with the Travel and Expenses Policy.

Corporate Credit Cards

The IETF LLC may issue credit cards to staff and/or contractors as necessary for business-related purchases. Cardholders must sign an agreement accepting responsibility of adhering to the Credit Card Policy. The Code of Conduct, and the Travel and Expenses Policy will apply.

The total limit across all credit cards must be agreed by the Treasurer, with individual limits within the total limit determined by the IETF Executive Director.

Payroll Procedures

Payroll is processed monthly. The IETF LLC uses direct deposit (a.k.a. wire payment) for all employees/contractors.

All payroll payments must be reviewed and approved by the IETF Executive Director prior to payment. The payroll payment to the IETF Executive Director must be reviewed and approved by the Treasurer.

Accounts Receivable

The standard payment term for accounts receivable will be Net 30 but may be negotiated on an individual basis so long as it does not exceed Net 90.

Wherever possible, all funds should be received via electronic payment and the use of cash and physical checks strongly discouraged.

PLANNING AND REPORTING

Budgeting

Annual Budget

The IETF LLC produces an annual budget before the start of each financial year and one or more budget reforecasts during the financial years. These are used as follows:

- income, debt and expenditure are all tracked against budget and should be managed so as to be within budget
- all financial reporting is presented in comparison to the budget
- different internal controls are specified for expenditure within budget and expenditure outside of budget.

Budget Process and Schedule

The following inputs will be used when preparing the overall budget of the IETF LLC:

- The current IETF Administrative Strategic Plan
- The most recent budget reforecast or budget.
- The meetings budget as a distinct component of the overall budget.
- The RFC Editor budget as a distinct component of the overall budget.
- Any budget requests from the community

Each year the Board will define the annual budget schedule that specifies the dates for:

- The preparation of the overall budget by the IETF Executive Director including a review by the Accountant.
- A period for community consultation on a draft budget
- Final approval by the Board

A draft budget will go out to community consultation at least one week prior to the third IETF meeting in the year (usually in November) and will be finalised and approved by the Board no later than December 15.

After completion and approval of the budget by the Board, the budget may be modified for subsequent activities, but the Board must approve these modifications.

Once approved the budget will be posted on the IETF website.

Budget Reforecast

The IETF Executive Director will reforecast the budget each year, using at least four months of actual figures of income, debt and expenditure and in time to be approved at the July Board meeting. In exceptional circumstances this schedule may be changed or a second reforecast within a single financial year may be required.

Once approved the budget reforecast will be posted on the IETF website.

Financial Reporting

Monthly Financial Reports

Financial statements are produced monthly following the layout of the annual budget and containing the following:

- Actual income, debt and expenditure for the reported month
- Year-to-date (YTD) actual income, debt and expenditure
- YTD budgeted income, debt and expenditure
- YTD variance between budget and actuals
- Full year budgeted income, debt and expenditure

The schedule for the production of the financial statements is:

- The reporting month for monthly financial statements is normally the second month after the reported month closes (i.e. the reporting month for May is July). If an IETF meeting finished during the reported month, then the reporting month may be delayed to the third month after the reported month closes (i.e. if there is a meeting in March then the reporting month for March may be June).
- The Accountant produces the first draft of the monthly financial statements for the IETF Executive Director by the 13th business day of the reporting month.
- The IETF Executive Director approves the financial statements by the 18th business day of the reporting month and circulates to the Board, having addressed any issues raised.

The Board approves the financial statements at their next meeting or earlier if required and they are posted on the IETF website once approved.

Year-End Financial Statements

Year-end financial results are produced annually according to the following schedule:

- The Accountant prepares the year-end financial statements within 6 weeks of the end of the financial year, for the IETF Executive Director to review.
- The IETF Executive Director approves the year-end financial statements and provides them to the Board for approval no later than the earliest of one week prior to the March Board meeting, or one week prior to the first IETF meeting of the year.
- The year-end financial statements are posted on the IETF website once approved.

End-Of-Year Audit

End-Of-Year Audit Process

As a matter of good governance, the IETF LLC shall commission the external auditors appointed by the Internet Society to conduct an annual audit and will also follow any

audit guidelines specified by or required by the Internet Society if applicable. The IETF LLC aims to receive an unqualified audit opinion every year.

The Executive Director is responsible for:

- scheduling the audit
- preparing the information needed by the independent auditors
- answering questions during the audit
- directing the Accountant to work with the auditors.

The Board is responsible for:

- authorising the signing of the audit engagement letter
- authorising the signing of the audit management representation letter
- receiving the audit and meeting with the auditors

Once received, the results of the annual audit are to be posted on the IETF web site and communicated to the IETF community.

Form 990 Filings

The IETF LLC is not required to file IRS forms 990, Return of Organization Exempt from Income Tax and 990 Schedule A, Organization Exempt Under Section 501(c)(3) and is instead accounted for in the Internet Society form 990.

The IETF Executive Director will provide the audited accounts to the Internet Society for their form 990 filings.
