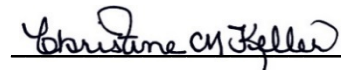


Monitoring Report IV: Financial Planning

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I certify that the information contained in this report is true.



Christine M Keller, Executive Director & CEO

2/27/2022

Date

Financial Oversight of Association: Context

To facilitate the Board's financial oversight of the Association, several reports are provided each year - including the results of the annual independent audits (financial audit and single audit) and six monitoring reports in response to three executive limitations (Financial Planning, Protection of Assets, and Financial Conditions and Activities). A brief explanation of the purpose of each report is provided below.

Independent Audits. Each spring the Board-selected audit firm (auditors) performs a financial and a single audit. During the financial audit, the auditors examine the financial statements of the Association and provide an opinion on the truth and fairness of those statement in accordance with the applicable financial reporting framework. During a single audit, the auditors review the Association's internal processes and financial controls and provide an opinion on the effectiveness of those processes and controls on ensuring compliance for the federally funded work. The Treasurer of the Board leads and coordinates the audit and the auditors present their findings to the full Board in May. [LINK TO FINANCIAL STATEMENT](#)

Policy IV. Financial Planning. This policy requires that the Association operates with a financial plan developed through a process that is sound and reasonable. The planning cannot materially deviate from the Ends and risk fiscal jeopardy to the Association. Moreover, the policy requires that financial planning be in line with the limitations of Policy VI. Financial Conditions and Activities and include projections of revenues and expenses, cash flow, separation of operations/capital, and clear assumptions. This policy is focused on ensuring that the processes, mechanisms, and assumptions used to create the financial plan are reasonable and complete, and less focused on the specific numbers. This monitoring report is created in February and discussed by the Board in March.

Policy V. Financial Conditions and Activities. This quarterly monitoring report provides information about financial operations from the previous quarter and allows the Board to review the status of year-to-date revenues and expenses, any borrowing or debt, the timeliness of important payments, and large commitments or purchases. The report is prepared at the end of each quarter and discussed by the Board the following month.

Policy VII. Protection of Assets. This monitoring report ensures that the Association's assets, including financial ones, are adequately protected, maintained and not subject to unnecessary risk. It also describes the processes in place to avoid conflicts of interest when making purchases and provides the guidelines for managing working capital. The report is prepared in November and discussed by the Board in December.

Global Policy Language

Financial planning for any fiscal year or the remaining part of any fiscal year will not deviate materially from the Board's Ends priorities, risk fiscal jeopardy, or fail to be derived from a multi-year plan.

Interpretation 1

- a) Financial planning is guided by the Ends priorities set by the Board and aligned with the goals and objectives established by the Executive Director in the Ends monitoring report.
- b) No less than 90 percent of projected expenses (use of resources) in the financial plan will be allocated to produce and/or deliver products and services that align with the Ends.

Evidence 1

- a) Financial planning for 2022 took a balanced approach, incorporating stretch programming goals as well as allowances for unanticipated expenses. Planning assumptions and decisions focus on the achievement of five operation goals articulated in the January 2022 Ends report and build on the experiences of 2021.
 1. *Achieve contract and grant deliverables.*
 2. *Meet the needs of current stakeholders through programs, resources, and services.*
 3. *Expand membership and programming to reach new individuals and/or markets.*
 4. *Better leverage data and technology for decisions, operations, and programming.*
 5. *Focus on actions that increase financial stability and flexibility.*
- b) The 2022 budget includes \$4,850,000 of projected expenses allocated within three broad categories: education and community programming, grants and contracts, and operations. Expense estimates are aligned with the five operational goals established to meet the Ends. The estimated expenses include the \$130,000 within the operations category that is set aside for governance per the Board's directive.

Interpretation 2

Financial planning will avoid the risk of fiscal jeopardy by conforming to the executive limitations described in *EL Policy VI. Financial Conditions and Activities (FCA)*.

Evidence 2

As described in more detail within the interpretation of Policy A, financial planning for 2022 conformed to the constraints of *EL Policy VI. FCA*.

Interpretation 3

Financial planning for established programs and services will consider historic financial and participation information, adjusted for the current external environment and financial constraints – especially the lingering impacts of the coronavirus pandemic.

Evidence 3

As described in more detail within the interpretations of Policy B, financial planning for established, ongoing programs included the consideration of historic financial and participation data within the current environment.

A. Policy Language

The Executive Director will not allow financial planning that: Risks incurring those situations or conditions described as unacceptable in the Board policy “Financial Conditions and Activities.”

Interpretation

The 2022 financial plan will not contain assumptions that violate the executive limitations outlined in *EL Policy VI. Financial Conditions and Activities (FCA)*. Listed below are three policies of particular importance in guiding the planning process.

The Executive Director will not:

Policy A. Expend more funds than have been received in the fiscal year to date unless the debt guideline (B) is met.

Policy B. Incur debt in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 90 days.

Policy I. Allow net assets to fall below six months of operating expenses.

Rationale

The FCA policy provides oversight and guidance for the management of AIR’s finances. Although all the limitations outlined in the FCA are important for prudent fiscal management, the creation of a financial plan that violate Policies A & B would put the Association at risk of violating the remainder of the FCA policies.

Evidence

The financial planning assumptions for 2022 do not include debt that could not be repaid within 90 days, nor do they allow net assets to fall below six months of operating expenses, which for 2022 is \$1,537,000.

B. Policy Language [1]

*The Executive Director will not allow financial planning that: [1] **Omits credible projection of revenues and expenses**, separation of capital and operational items, cash flow, and disclosure of planning assumptions.*

Interpretation 1

- a) 75 percent or more of revenue included in the financial plan will be based on contractual agreements or historic financial and participation data, adjusted for the current external environment and financial constraints created by the lingering impacts of the coronavirus pandemic.
- b) The budgeted expenses associated with the revenue in (a) will be based on contractual agreements or historic financial and participation data, adjusted for the current external environment and financial constraints created by the lingering impacts of the coronavirus pandemic.

Evidence 1

- a) The 2022 financial plan includes \$4,532,000 of revenue of which \$3,733,000 (82 percent) is based upon contractual agreement or historic financial and participation data (adjusted for current circumstances).
- b) The budgeted cost associated with the revenue in (a) are based off contractual agreements or historic financial and participation data (adjusted for current circumstances), total \$4,206,000 in the financial plan.

Interpretation 2

The financial plan will include mechanisms for tracking, reviewing, and adjusting revenue and expense projections to mitigate the uncertainty caused by external environmental factors.

Evidence 2

Progress toward participation and revenue targets for AIR programs and services are updated regularly by AIR staff. The progress reports, along with information on contracts and grants, are included as part of regular financial reviews by the Executive Director and Director of Finance so that any necessary adjustments to budget revenue and expense projections can be made. AIR is implementing new financial planning software that will facilitate the evaluation and adjustment process.

Interpretation 3

- a) Revenue derived from contract and grant activities included in the financial plan are based on contracted payment schedules, adjusted as appropriate for current circumstances.
- b) Expenses necessary to perform contract and grant activities are shaped by prior period financial data and experience, and then adjusted for current circumstances.

Evidence 3

- a) The financial plan includes \$2,785,000 of revenue from grant and contract activities including RTI International (NCES/IPEDS), the Bill & Melinda Gates Foundation, the Association of Public and Land-grant Universities, the Rockefeller Philanthropy Advisors, and the National Student Clearinghouse.
- b) The financial plan includes \$2,351,000 in projected expenses, which are based on contract and grant deliverables, prior year data, and experience.

Interpretation 4

Operational expenses for support activities and infrastructure that do not have a direct revenue source are included in the financial plan and are based on contracted amounts and/or historical data, adjusted for current circumstances.

Evidence 4

The financial plan includes \$794,000 of operational expenses for activities and individuals that support the Association but have no direct funding source (e.g., accounting, technology and website support, communications, depreciation, and insurance). These expenses are projected based on historic financial data and known/contracted costs for the year, while considering the financial constraints.

B. Policy Language [2]

*The Executive Director will not allow financial planning that: Omits credible projection of revenues and expenses, [2] **[omits] separation of capital and operational items**, cash flow, and disclosure of planning assumptions.*

Interpretation

The financial plan separately accounts for the anticipated purchases of capitalized assets and contains the corresponding depreciation expense associated with those assets.

Rationale

AIR capitalizes assets purchased for \$5,000 or more and have a useful life beyond a year. The asset is then depreciated in accordance with Generally Accepted Accounting Principles (GAAP). In other words, the initial purchase of an asset is not completely expensed for several years as compared to operational items that are immediately expensed.

Evidence

The financial plan for 2022 does not include the purchase of capital assets. The depreciation expense from previously capitalized assets is included in the financial plan.

B. Policy Language [3]

*The Executive Director will not allow financial planning that: Omits credible projection of revenues and expenses, separation of capital and operational items, [3] **[omits] cash flow**, and disclosure of planning assumptions.*

Interpretation

The financial plan considers the timing difference between payments of revenue and cash outlays for expenses related to those revenues

Rationale

Most of AIR's expenses occur after revenues are received. As such, financial planning does not require an extensive cash flow planning process. However, the annual cash flow is projected at a high-level to confirm the cash flow situation remains stable.

Evidence

The financial plan includes a high-level cash flow analysis. The analysis did not raise any cash flow timing concerns.

B. Policy Language [4]

*The Executive Director will not allow financial planning that: Omits credible projection of revenues and expenses, separation of capital and operational items, cash flow, and [4] **[omits] disclosure of planning assumptions**.*

Interpretation

The planning process discloses the assumptions used to develop the financial plan.

Evidence

The highest-level assumptions are reflected in the interpretations and evidence for the first three limitations within Policy B [1], [2], [3]. In addition, the 2022 master budget documents includes a record of the assumptions used as part of the financial planning process, including those at the program level.

C. Policy Language

The Executive Director will not allow financial planning that: Provides less for Board prerogatives during the year than is set forth in the Cost of Governance policy.

Interpretation

Expenses for the cost of governance as defined in the *GP Policy XII. Cost of Governance* will be included in the financial plan.

Evidence

The financial plan includes up to \$130,000 for 2021-22 Board expenses related to the cost of governance. The 2022-23 Board has not yet set their budget and amount set aside will be updated if the cost of governance amount in GP Policy XII changes for the 2022-23 Board year.

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