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.

Policy V. 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 VI. 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 VIII. 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 for any fiscal year or remaining part of any fiscal year 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) Decisions and actions in 2020 to reduce costs and to ensure the long-term viability of the Association were guided by what was necessary to achieve the Ends and to avoid financial losses in 2021. Financial planning for 2021 took a balanced approach, incorporating stretch programming goals as well as allowances for unanticipated expenses. Planning assumptions and decisions focused on the achievement of the four goals articulated in the January 2021 Ends report.

- Achieve contract and grant deliverables.
- Support the needs of stakeholders through programs, resources, and services.
- Gain knowledge and experience to recalibrate AIR’s business model for the future.
- Balance the budget to maintain financial stability.

b) The 2021 budget includes $3,692,000 of projected expenses allocated within three broad categories – education and community programming, grants and contracts, and operations. Expense estimates are aligned with the four goals established to meet the Association 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 2021 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 those created by 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.

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 2021 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 violated Policies A, B, and I would put the Association at risk of violating the remainder of the FCA policies.

Evidence
The financial planning assumptions for 2021 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. The funds received through the federal Payroll Protection Program as a forgivable loan are included as a separate line item in the 2021 budget.
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 ongoing 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 ongoing coronavirus pandemic.

**Evidence 1**

a) The 2021 financial plan includes $3,331,000 of revenue of which $2,701,000 (81 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 $2,992,000 in the financial plan.

**Interpretation 2**

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

**Evidence 2**

Progress toward participation and revenue targets for AIR programs and services are updated weekly by AIR staff. The progress reports will be included as part of a quarterly financial review by the Executive Director, CFO, and Director of Finance so that any adjustments to budget revenue and expense projections can be made in a timely manner.

**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 $2,100,000 of revenue from grant and contract activities including partnerships with the U.S. Department of Education, the Bill & Melinda Gates Foundation, the Association of Public and Land-grant Universities, and the National Student Clearinghouse.

b) The financial plan includes $1,484,000 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 $980,000 of operational expenses that are associated with 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 and revenue losses caused by the pandemic.

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 2021 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, AIR has not needed an extensive cash flow planning process. As part of financial planning, 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 2021 master budget includes a record of the assumptions used as part of the financial planning process. The high-level assumptions are reflected in the interpretations and evidence for the first three limitations within Policy B [1], [2], [3].

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 Board expenses related to the cost of governance. The 2020-21 Board reduced their budget by $47,000 for the period of June 2020 to May 2021. The 2021-22 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 2021-22 Board year.