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 cannot operate without a multi-year year 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 making investments. The report is prepared in November and discussed by the Board in December.

The monitoring information provided below is one of the four reports on Policy VI: Financial Conditions and Activities. The information and data contained in this report correspond to the 2nd Quarter of 2019 (reporting quarter) unless otherwise noted.

Global Policy Language
With respect to the actual, ongoing financial condition and activities, the Executive Director will not cause or allow the development of fiscal jeopardy.

Interpretation
The interpretations and evidence for Policies A to K, reported quarterly, reasonably demonstrate that current, ongoing financial conditions and activities do not cause or allow the development of fiscal jeopardy.

Rationale
The interpretations and data for Policies A to K are reported quarterly and offer timely evidence that ongoing financial activities and processes do not cause or allow conditions that would put the Association at risk for fiscal jeopardy in between the yearly audits.

Evidence
Evidence is provided within Policies A to K later in this report.

A. Policy Language
The Executive Director will not: Expend more funds than have been received in the fiscal year to date unless the debt guideline (below) is met.

Interpretation
Fiscal year-to-date financial data will show that either revenues exceeded expenses, or the debt restriction outlined in Policy B has been met.

Rationale
This interpretation is appropriate as it is based on actual financial data as defined by Generally Accepted Accounting Principles (GAAP). In general, AIR will spend within its means as defined by revenues received, but doing so without exception means that excess net revenues will build up and never be used to fund services that benefit members. When spending exceeds revenues, the standards of Policy B ensure that we cannot overextend our financial resources.
Data
From January 1 to June 30, 2019 revenues exceeded expenses by approximately $54,832 (revenue of $2,879,550 less $2,824,718 in expenses equals a net surplus of $54,832).

B. Policy Language
The Executive Director will not: Incur debt in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 90 days.

Interpretation 1
AIR will have no long-term debt obligations (payment period of 91 days or greater) that cannot be repaid in 90 days by unencumbered revenue.

Rationale 1
The current interpretation does not further define the policy as AIR has no immediate plan to take on long-term debt. (Note: Although AIR has not accessed credit in the past, the use of long-term credit is a normal and useful management strategy that enables an organization to preserve available cash by spreading the payment of a good or service over a longer period.)

Data 1
AIR had no long-term debt during the reporting period.

Interpretation 2
AIR will have no short-term debt obligations (payment period of 90 days or less) unless fully payable by unencumbered revenues anticipated to be earned within 90 days.

Rationale 2
The current interpretation does not further define the policy as AIR has no immediate plan to take on short-term debt. (Note: Although AIR has not accessed credit in the past, the use of short-term credit is a normal and useful management strategy that enables an organization to preserve available cash by spreading the payment of a good or service over a short period.)

Data 2
AIR had no short-term debt during the reporting period.

C. Policy Language
The Executive Director will not: Allow payroll and debts to be settled in an untimely manner.

Interpretation 1
100% of monthly payroll authorizations will be released to AIR’s payroll management vendor no later than close of business, two business days prior to the last day of the month.
**Rationale 1**

100% is a very high standard but is a reasonable expectation because paying employees on time is an essential business requirement. AIR contracts with a payroll company to produce and deliver electronic payroll deposits for all employees. The vendor established a deadline of two business days prior to the last business day of the month to ensure timely electronic transfer of payroll to each employee.

**Data 1**

All payroll files were submitted to the payroll processing company on time.

**Interpretation 2**

A random sample of expenses paid during the quarter will be reviewed to determine the proportion that were paid within 30 days of receipt of invoice or by the payment date stated on a fully executed contract, except for contested or incomplete invoices, or as provided in D.3. The acceptable threshold is 95%.

**Rationale 2**

95% is a high threshold even though mistakes are expected in any system of payables. However, it is a reasonable interpretation because AIR issues payments weekly, and as a result, has multiple opportunities to pay bills on time within a normal billing cycle. The use of a random sample of invoices conforms to generally accepted processes for financial audits (Statement on Auditing Standards AU 350).

**Data 2**

38 of the 40 invoices randomly selected were paid on time - meeting the 95% threshold.

**D. Policy Language**

*The Executive Director will not: Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.*

**Interpretation 1**

100% of government ordered payments and/or filings will be made on time.

**Rationale 1**

The rate of 100% is appropriate since these payments and/or filings are required for compliance with laws and AIR policies and may carry financial penalties for late filings.

**Data 1**

All nine government ordered payments and/or filings were made on time.

**Interpretation 2**

100% of government ordered payments and/or filings will be prepared accurately and in accordance with reporting agencies’ guidelines and regulations.
Rationale 2
The rate of 100% is appropriate since these payments and/or filings are required for compliance with laws and AIR policies and may carry financial penalties for inaccurate filings.

Data 2
All nine government required payments and/or filings were completed accurately.

E. Policy Language
The Executive Director will not: *Make a single purchase or commitment of greater than $100,000 without notifying the Board within seven business days. Splitting orders to avoid this limit is not acceptable.*

Interpretation
100% of contracts and commitments for purchases of $100,000 or more will be reported to the Board within seven business days of signing by AIR.

Rationale
This interpretation covers actual contracts or commitments to pay sums of $100,000 or more. It ensures timely notification while allowing that travel schedules, holidays, or unforeseen circumstances might slightly delay a notification.

Data
No contracts or commitments for purchases of more than $100,000 were made during the second quarter of 2019.

F. Policy Language
The Executive Director will not: *Make a single purchase or commitment of greater than $250,000. Splitting orders to avoid this limit is not acceptable.*

Interpretation
No purchases will be authorized in an amount greater than $250,000 or will be combined from one vendor to equal this amount or greater.

Rationale
This interpretation is appropriate because the Board has not delegated authority to the Executive Director to spend more than $250,000 a single transaction. In the specific case of hotel contracts, the total used in reporting for F is determined as the amount AIR agrees to purchase – usually food and beverage and any room rental charges. While contracts may have a clause for cancellation penalties that exceed $250,000 (based on a no-notice, total withdrawal from the hotel contract), it is highly unlikely that AIR will face such a penalty.
Data
There were no single purchase or commitments of greater than $250,000 during the second quarter of 2019.

G. Policy Language
The Executive Director will not: Acquire, encumber, or dispose of real estate.¹

Interpretation
100% of Financial Conditions and Activities Monitoring reports will contain a written statement by the Executive Director that no new real estate has been purchased, and no liens, loans, or disposal of AIR-owned real estate have occurred.

Rationale
The Association only has one real estate property, and any change in ownership or encumbrance would be shown on the annual audit statement as a change in financial condition. The quarterly written statement provided by the Executive Director in each Financial Conditions and Activities Monitoring Report, checked annually through the Board’s official audit, is adequate to monitor that there has been no change in the Association’s ownership of property between audits.

Data
Executive Director Statement: I certify that no real estate has been acquired, encumbered, or disposed of in the period covered by this monitoring report.

H. Policy Language
The Executive Director will not: Allow receivables to be unpursued after a reasonable grace period.

Interpretation 1
100% of all contract or grant receivables outstanding for 61 days or more will be documented showing the trail of collection actions taken.

Rationale 1
AIR rarely experiences late payments related to federal contract and grant work. However, it is prudent that we communicate with our contract and grant partners when there is an issue with payments, and that all communication be documented. Taking these steps can help mitigate problems that arise from prolonged issues of non-payment.

¹ At the October 19, 2016 Board meeting, the Board authorized the Interim Executive Director, in collaboration with a licensed realtor, to sell AIR’s office building located at 1435 East Piedmont Drive, Tallahassee, FL. At the April 2018 Board meeting, the Board confirmed the authority of the current Executive Director to undertake all acts and execute all documents necessary to sell the Piedmont property. At the December 19, 2018 Board meeting, the Board passed a resolution authorizing the Executive Director to enter into a leasing agreement of the Piedmont Property.
Data 1
There are no occurrences of late payments to AIR on contract or grant receivables.

Interpretation 2
The “Average Collection Period” ratio (ACP) - also known as the Receivable Turnover Ratio - for non-contract and grant receivables will not exceed the mean ACP ratio for similar organizations.

Rationale 2
The ACP ratio shows an organization’s ability to timely collect accounts receivables. The American Society of Association Executives’ (ASAE) 2016 Operating Ratios indicates that the mean ACP ratio is 56 days (the median is 16 days) for organizations similar to AIR. It is reasonable to expect that our ACP ratio will be within the range of our peers. In addition, with the implementation of new AMS, AIR made the decision to only accept credit card payments for nearly all sales. There will be some instances of check payments for Forum, but customers no longer have the option of selecting “Pay by check” in the store checkout process. Because of this change, AIR’s accounts receivable balance is expected to be lower than in the past and because check payments follow a specific process, the level of uncollectible debts is expected to be minimal.

Data 2
AIR’s Average Collection Period (ACP) ratio is 8 days. The mean ACP ratio benchmark is 55.8 days².

I. Policy Language
The Executive Director will not: Allow net assets to fall below six months of operating expenses.

Interpretation
The balance of unencumbered net assets will exceed six months of operating expenses.

Rationale
There is no “industry standard” of prudence regarding the minimum level of net assets an organization should have as a safety net; however, the frequently reported range is 6 to 12 months of operating expenses for similar organizations (per the Florida Society of Association Executives [FSAE], the American Society of Association Executives [ASAE], and the Council of Higher Education Management Associations [CHEMA]). Because of AIR’s historic financial stability, the risk of a “total collapse” is unlikely (all expenses remain and no revenue is generated) and there is flexibility to adjust our expenses quickly (we do not have a mortgage, long-term lease, or labor contracts), thus six months of operating expenses is a reasonable target and allows for emergencies and fiscal variations (e.g., a federal government shutdown).

Data
Six months of operating expenses is $1,825,944. The undesignated net asset balance was $3,402,561 as reported in the audited 2018 financial statements.

² The data from the ASAE’s 2016 Operating Ratios are from the 990 Annual Tax Returns of 550 non-profits 501(c)(3) or 501(c)(6) professional and/or trade associations or with annual revenues between three and five million dollars.
J. Policy Language

*The Executive Director will not: Accept gifts and endowments not in keeping with Ends, or that will cost more to administer than their worth.*

**Interpretation 1**

100% of non-cash gifts will be independently evaluated by an appropriate appraiser to establish their value and estimated costs for maintenance, upkeep, or disposal.

**Rationale 1**

AIR does not have a history of receiving non-cash gifts. As such, this basic interpretation is adequate to provide guidance for any first occurrence of such a gift. It is reasonable to expect the Executive Director to seek advice from a knowledgeable professional to ascertain the value of the gift.

**Data 1**

There were no occurrences of non-cash gifts during the reporting period.

**Interpretation 2**

100% of accepted non-cash gifts, cash endowments, or liquid assets will be judged by a panel of AIR members to be practically usable for educational purposes within the established Ends of AIR.

**Rationale 2**

AIR does not have a history of receiving non-cash gifts, cash endowments, or liquid assets. As such, this basic interpretation is adequate to provide guidance for any first occurrence of such a gift. It is reasonable to expect the Executive Director to seek advice from a knowledgeable panel of AIR members in determining the value of any such gifts before accepting them.

**Data 2**

There were no occurrences of donations that consisted of non-cash gifts, cash endowments, or liquid assets during the reporting period.

**Interpretation 3**

100% of cash contributions to any AIR scholarship funds will be accepted as both keeping with established Ends and being worth more than the cost of administering them.

**Rationale 3**

Accepting cash gifts for scholarship funds is acceptable without need for additional justification.

**Data 3**

There were no occurrences of a cash contributions to scholarship funds during the reporting period.