Monitoring Report VI: Financial Conditions and Activities – 2nd Quarter (2020)

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

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Christine M. Keller, Executive Director & CEO

September 30, 2020

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.

Policy V. Financial Planning. This policy requires that the Association cannot operate without a multi-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 managing working capital. 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 2020 (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.

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
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 AIR does not overextend its financial resources.

Data
From April 1 to June 30 of 2020 expenses exceeded revenues by approximately $448,258 (revenue of $1,521,537 less $1,969,794 in expenses). Compliance was achieved as the debt restriction in Policy B was met.
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**

- 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.
- 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.

**Data**

AIR had no short-term or long-term debt during the reporting period that could not be repaid within 90 days. (Note: AIR received a forgivable loan of $457,800 from the federal Payroll Protection Program during the reporting period, which, if necessary, could be immediately be repaid from reserves. AIR has been conditionally approved for loan forgiveness, thus the need to repay the loan from reserves is highly unlikely.)

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.

**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**

The use of a random sample of invoices conforms to generally accepted processes for financial audits (Statement on Auditing Standards AU 350).

**Data 2**

39 of the 40 invoices randomly selected were paid on time - exceeding 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**

- 100% of government ordered payments and/or filings will be made on time.
- 100% of government ordered payments and/or filings will be prepared accurately and in accordance with reporting agencies’ guidelines and regulations.

**Data**

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

**Data**

No contracts or commitments for purchases of more than $100,000 were made during the second quarter of 2020.

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.

**Data**

There was no single purchase or commitment of greater than $250,000 during the second quarter of 2020.
G. Policy Language

The Executive Director will not: Acquire, encumber, or dispose of real estate.

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.

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 AIR’s ACP ratio will be within the range of our peers.
Data 2
AIR’s Average Collection Period (ACP) ratio is 29 days. The mean ACP ratio benchmark is 55.8 days\(^1\).

I. Policy Language

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

Interpretation
The balance of undesignated 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 American Society of Association Executives and the Council of Higher Education Management Associations). 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 (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.

Data
Six months of operating expenses is $1,788,958. The undesignated net asset balance as of 12/31/2019 is $2,124,550.

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.
- 100% of accepted non-cash gifts, 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.

Data 1
There were no occurrences of non-cash gifts, endowments, or liquid assets during the reporting period.

\(^1\) 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.
**Interpretation 2**
100% of cash contributions to AIR scholarship funds will be accepted as in keeping with established Ends and being worth more than the cost of administering them.

**Data 2**
There was one occurrence of a cash contributions to AIR scholarship funds during the reporting period.