

Cash and Investments (Policy 2.6)
Monitoring Period: January 2023 – September 2023

Finance Committee Meeting Review Date: March 12, 2024
Board of Directors Meeting Review Date: March 21, 2024

INFORMATION TYPE
Monitoring
RECOMMENDED ACTION(S)
<p>That the Board review this monitoring report and consider accepting it as:</p> <p>(A) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations.</p> <p>(B) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations, except for the CEO’s stated non-compliance with item(s) x .x, which the Board acknowledges and accepts the proposed dates for compliance.is making reasonable progress towards compliance.</p> <p>(C) 1. For policy items x.x.x – there is evidence of compliance with a reasonable interpretation 2. For policy items x.x.x – the interpretation is not reasonable 3. For policy items x.x.x – the interpretation is reasonable, but the evidence does not demonstrate compliance 4. For policy items x.x.x – the Board acknowledges and accepts the CEO’s stated non-compliance and the proposed dates for compliance</p>
PRIOR RELEVANT BOARD ACTIONS & POLICIES
<p>Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0). A Policy-Governance-consistent Monitoring Process is:</p> <ol style="list-style-type: none"> 1. CEO sends Monitoring Report to all board members 2. At Board meeting, board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)

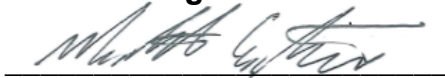
ISSUE SUMMARY

TheRide’s Board of Directors establish policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.

Per Appendix A of the Board Policy Manual, this report was scheduled for monitoring in March and was submitted in March. Previously, this policy was monitored twice a calendar year, mostly recently in December 2022. At that point the Board changed the monitoring frequency to once per year. This report is now with the fiscal year calendar (Oct-Sept), to be similar to other financial reporting schedules. This accounts for the nine-month duration of this monitoring period.

I certify that the information is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance.

CEO’s Signature






Date

2/27/2024

ATTACHMENTS

1. Monitoring report for Cash and Investments (Policy 2.6)

Table of Contents

POLICY TITLE: CASH AND INVESTMENTS	Page#	Compliance
2.6 The CEO will not fail to hold cash for short-term operations or surplus capital for investment according to the Board’s investing priorities: first ensuring safety of principal, next providing adequate liquidity, and third, returning the highest yield compatible with prudent investing. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:	4	
2.6.1 Hold AAATA operating cash or surplus capital in insecure instruments, including federally uninsured checking accounts or non-interest-bearing accounts except where necessary to facilitate ease in operational transactions.	5	
2.6.2 Deviate from the “Investment Policy to Comply with Michigan PA 20 of 1943” as stated in the Appendices, invest in instruments other than those so authorized, or invest unlawfully with respect to state and federal laws, including Michigan PA 20 of 1943.	6	

 Fully Compliant
  Partially Compliant
  Non-Compliant

Preliminary CEO Interpretations and Evidence

POLICY 2.6

The CEO will not fail to hold cash for short-term operations or surplus capital for investment according to the Board’s investing priorities: first ensuring safety of principal, next providing adequate liquidity, and third, returning the highest yield compatible with prudent investing.

Degree of Compliance: Compliant

Evidence

Compliance with this policy will be demonstrated when compliance with policies 2.6.1 and 2.6.2 are achieved.

POLICY 2.6.1

Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Hold AAATA operating cash or surplus capital in insecure instruments, including federally uninsured checking accounts or non-interest-bearing accounts except where necessary to facilitate ease in operational transactions.

Degree of Compliance: Compliant

Interpretation

Measure/Standard & Level of Achievement

I interpret this policy to apply to the agency's approach to short-term cash management. I further interpret this to mean that agency funds should be kept safe to protect the agency and customers from loss and organization instability, while at the same time maintaining adequate liquidity to transact normal business and generate some degree of investment return. However, safety is the priority not investment returns, and we consequently have a low risk tolerance for investments.

Compliance with this policy will be demonstrated when statements for all accounts from the most recent financial quarter illustrate that all funds held in checking and money market savings accounts:

1. Are held in accounts that are Federal Deposit Insurance Corporation (FDIC) insured and at banking institutions where all accounts are FDIC insured up to \$250,000, and
2. That deposit accounts generate interest.

I further interpret this policy to allow funds to be unsecured and not generate revenue if liquidity and cash-flow needs require them for transactions such as payroll.

Rationales

This is a reasonable interpretation because:

- A. Account statements are legally required tallies of each account produced by the institution. Account statements are generated by the financial institution (not AAATA staff), reflect all cash transactions in reported accounts, and a true representation of accounts, transactions, interest earned, fees and balances for the reporting period.
- B. All funds needed for immediate operations (e.g. payables, payroll, etc.) are included and our funds are safe (financial institutions backed by the FDIC provide guaranteed insurance up to \$250,000 per depositor and protects insured depositors). The level of necessary cash in these accounts varies based on projected operating and capital expenses, timing of deposits generated from revenue, and investment transfers. Approximately one month's projected operating expenses *plus* projected capital expenditures are required for managing the cash flow. Excess funds are transferred to CDARS-ICS accounts, fully federally insured

accounts, or longer-term investment accounts. At times, investment transfers require placing funds in money market accounts for up to 24 hours.

C. All these accounts generate some interest.

Evidence

A review of all account statements (Reed, 02/09/2024) from all financial institutions holding AAATA monies as of September 30, 2023 disclose that:

1. All accounts holding AAATA funds produce interest.
2. Cash held in accounts that exceed federally insured limits were required to facilitate ease of transactions. At the end of Q4 FY 2023, there was \$3.8 million in cash, checking and money market balances (excluding CDARS-ICS money market funds). Operating expenses during this time period were approximately \$4.8 million per month. All uninsured balances were required to facilitate ease of financial transactions.

As of September 30, 2023 total cash, checking, and money market account balances were \$35.9 million and distributed as shown below in Table 2.6A.

Table 2.6A

Cash, Checking and Money Market Balances (\$ in thousands)	
Cash, Checking or Money Market Account	As of 09/30/2023
Imprest	\$ 210
Operating	688
Payroll	448
Changers/Petty Cash	4
Passes and Tokens	31
Capital	603
Money Market Savings	1,469
Flex Spending	58
GetDowntown	264
Sub-Total (Insured up to \$250,000)	3,775
CDARS-ICS (Insured up to \$75,000,000)	32,127
Total Cash, Checking & Money Market	\$ 35,902

All monies held in bank accounts and investments are in deposit at The Bank of Ann Arbor, which is an FDIC insured bank with FDIC insured accounts. Additionally, based on information reported by the Federal Financial Institutions Examination Council (FFIEC), in the Uniform Bank Performance Report (UBPR), Deposit Accounts by Lending Tree, an unbiased evaluator of banking institutions, gave Bank of Ann Arbor a B+ rating as of September 30, 2023 for overall bank health. Rating summaries are provided below.


Health

B+

Data as of Q3 2023

[Learn why bank health matters](#)

Health Grade Components

- A+** Texas Ratio ▲
- C+** Texas Ratio Trend ▼
- D** Deposit Growth ▼
- A+** Capitalization ▼

The Texas Ratio is an indicator of how much capital a bank has available compared to the total value of loans considered at risk. As of September 30, 2023 Bank of Ann Arbor had \$16.21 million in non-current loans and owned real-estate with \$417.08 million in equity and loan loss allowances on hand to cover it. This gives Bank of Ann Arbor a Texas Ratio of 3.89% which is excellent. Any bank with a Texas Ratio near or greater than 100% is considered at risk.

OVERALL

FDIC Certificate #	34120
Year Established	1996
Employees	334
Primary Regulator	FDIC

PROFIT MARGIN

Return on Assets - YTD	1.69%
Return on Equity - YTD	13.88%
Annual Interest Income	\$113MM

ASSETS AND LIABILITIES

Assets	Q3 2023	\$3.08B
	vs Q3 2022	\$3.22B
Loans	Q3 2023	\$2.34B
	vs Q3 2022	\$2.11B
Deposits	Q3 2023	\$2.58B
	vs Q3 2022	\$2.77B
Equity Capital	Q3 2023	\$386.1MM
	vs Q3 2022	\$347MM
Loan Loss Allowance	Q3 2023	\$30.9MM
	vs Q3 2022	\$34.2MM
Unbacked Noncurrent Loans	Q3 2023	\$15.9MM
	vs Q3 2022	\$6MM
Real Estate Owned	Q3 2023	\$344K
	vs Q3 2022	\$381K

Source: <https://www.depositaccounts.com/banks/health.aspx>, <https://www.ffiec.gov/ubpr.htm>

Health

B+

Data as of Q3 2023

[Learn why bank health matters](#)

Health Grade Components

A+ Texas Ratio ▼ **C+** Texas Ratio Trend ▲ **D** Deposit Growth ▼ **A+** Capitalization ▼

The Texas Ratio for Bank of Ann Arbor experienced no significant changes from 1.68% as of September 30, 2022 to 3.89% as of September 30, 2023, resulting in a negative change of 131.90%. This indicates that the balance sheet and financial strength for Bank of Ann Arbor has had no significant changes in recent periods.

OVERALL		ASSETS AND LIABILITIES	
FDIC Certificate #	34120	Assets	Q3 2023 \$3.08B vs Q3 2022 \$3.22B
Year Established	1996	Loans	Q3 2023 \$2.34B vs Q3 2022 \$2.11B
Employees	334	Deposits	Q3 2023 \$2.58B vs Q3 2022 \$2.77B
Primary Regulator	FDIC	Equity Capital	Q3 2023 \$386.1MM vs Q3 2022 \$347MM
PROFIT MARGIN		Loan Loss Allowance	Q3 2023 \$30.9MM vs Q3 2022 \$34.2MM
Return on Assets - YTD	1.69%	Unbacked Noncurrent Loans	Q3 2023 \$15.9MM vs Q3 2022 \$6MM
Return on Equity - YTD	13.88%	Real Estate Owned	Q3 2023 \$344K vs Q3 2022 \$381K
Annual Interest Income	\$113MM		

Source: <https://www.depositaccounts.com/banks/health.aspx>, <https://www.ffiec.gov/ubpr.htm>

POLICY 2.6.2

Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Deviate from the “Investment Policy to Comply with Michigan PA 20 of 1943” as stated in the Appendices, invest in instruments other than those so authorized, or invest unlawfully with respect to state and federal laws, including Michigan PA 20 of 1943.

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Achievement

I interpret this policy to apply to the agency’s approach to longer-term investments. Compliance will be demonstrated when:

1. Account statements for investments indicate that funds are held only in Certificates of Deposit (not to exceed \$4 million in any one financial institution), bonds or other direct obligations of the U.S. (maturity limited to 3 years or less), or government mutual funds.
2. Investments are held:
 - a. In accounts which ensure the safety of the principal balance,
 - b. Remain liquid, and
 - c. Return the highest yield compatible with prudent investing.
3. A listing of investment accounts, with balances, maturity dates, and interest rates for each account, is provided to the Board at least quarterly.

Rationale

This is reasonable because these are the only types of investment instruments that are legal under Michigan Public Act 20 and authorized by the Board’s policy.

Evidence

A review of account statements from financial institutions and reconciliations as of September 30, 2023, (Reed, 2/9/2024), verified the following:

1. AAATA’s investments were held in Certificates of Deposits (CDs), U.S. Agency Bonds, and/or Money Market Savings accounts. Each of these are legal, authorized instruments per the policy, and do not exceed limits on amounts or maturities as required by the policy.
2. Regarding the Board’s established priorities for investing:
 - (a) Safety of Principal: Cash was held in checking and savings accounts at the Bank of Ann Arbor. Some investments were held in the Certificate of Deposit Account Registry Service (CDARS) managed by Bank of Ann Arbor (which invests funds to the FDIC insured limit in other banks), Certificates of Deposit (CDs) and Money Market Savings or ICS accounts.

Bank accounts, CDs, and Money Market accounts are FDIC insured. Other investments were held in U.S. Agency Bonds, which are federally insured direct obligations of the U.S. government.

(b) Adequate Liquidity: Cash in checking and savings accounts is immediately available. Monies held in investments are available within 30 days' notice to the financial institution. Liquidity has been sufficient to meet operating needs during the monitoring period, as AAATA has been able pay its expenses without using debt, and no expenses have been deferred due to insufficient liquidity of capital.

(c) Highest Yield Compatible with Prudent Investing: Yields on investments (0.23% to 5.50%) are the highest rates available considering the limited investment options due to policy and regulatory limits and the priorities for safety and liquidity. AAATA has followed the advice of its expert trust consultant at Bank of Ann Arbor in making prudent investing decisions according to the Board's policy and priorities.

3. A review of monthly Board meeting agendas and minutes (Reed, 2/9/2024) indicates that the required disclosure of investment accounts, balances, maturity dates, and interest rates was provided in quarterly financial reports presented to the Board since this policy was last monitored in April 2023. Investments for quarters 2, 3, and 4 for FY2023 were reported in May, August and November 2023, respectively, and FY2024 Q1 investments were presented in February 2024.

As of September 30, 2023 investment account balances totalled \$19.9 million and are distributed as shown below in Table 2.6B.

Table 2.6B

Investments Summary

(\$ in thousands)

Investment Instrument	Date of Maturity	Interest Rate	Total as of 6/30/2023	Transactions	Total as of 09/30/2023
U.S. Agency Bond	9/23/2024	0.50%	\$ 2,000	\$ -	\$ 2,000
U.S. Agency Bond	3/28/2025	2.83%	2,500	-	2,500
U.S. Agency Bond	3/28/2025	3.10%	2,000	-	2,000
U.S. Agency Bond	6/27/2025	3.25%	2,000	-	2,000
U.S. Agency Bond	8/8/2025	4.10%	1,400	-	1,400
U.S. Agency Bond	11/6/2023	0.25%	2,000	-	2,000
U.S. Agency Bond	2/24/2025	3.75%	200	-	200
U.S. Agency Bond	4/8/2024	0.38%	1,000	-	1,000
U.S. Agency Bond	9/15/2024	0.50%	2,500	-	2,500
U.S. Agency Bond	1/19/2024	0.23%	750	-	750
U.S Treasury Notes	6/30/2024	3.00%	2,000	-	2,000
U.S Treasury Notes	11/24/2025	5.50%	1,800	-	1,800
Money Market Funds	n/a	5.21%	132	96	228
Mark-to-Market Adjustment			(629)	110	(519)
Total Investments			\$ 19,653	\$ 206	\$ 19,859

The financial data presented as of September 30, 2023, demonstrates compliance with Policy 2.6 and the Board’s Investment Policy at a single point in time. A review of account statements and quarterly financial reports (Reed, 2/9/2024) confirms that cash and investments were held in compliance with this policy throughout the monitoring period. Additionally, quarterly financial reports are presented at Board meetings and monthly account statements are available for direct inspection.

Policy Trendlines

Policy	FY 20	FY 21	FY 22 (March)	FY 22 (August)	FY 22 (April)	FY23
2.6	3	3	3	3	3	3
2.6.1	3	3	3	3	3	3
2.6.2	3	3	3	3	3	3

LEGEND	
	Policy is not compliant
	Policy is partially compliant
	Policy is compliant

Guidance on Determining “Reasonableness” of CEO Interpretations

Are the interpretations reasonable?

An interpretation is reasonable if the following are provided,

1. a measure or standard,
2. a defensible rationale for the measure or standard,
3. a level of achievement necessary to achieve compliance and
4. a rationale for the level of achievement.

Is evidence verifiable?

Evidence is verifiable if there is

1. actual measurement/data,
2. the source of data and
3. the date when data was collected is provided.

Board’s Conclusion on Monitoring Report

Board’s conclusion after monitoring the report.

Following the Board’s review and discussion with the CEO, the Board finds that the CEO:

(A) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations.