


## Monitoring Report 2.6 Cash and Investments




Monitoring Period: July 2021 – December 2021




Finance Committee Review Date: April 12, 2022

Board Meeting Review Date: April 21, 2022

<b>INFORMATION TYPE:</b>
Decision
<b>RECOMMENDED ACTION(S):</b>
<p>Board reviews this monitoring report and completes the survey provided in <a href="#">this link</a> by April 5, 2022.</p> <p>Board considers accepting this monitoring report in August as either level:</p> <ul style="list-style-type: none"> <li>• A – In compliance, OR</li> <li>• B – In compliance, except for item(s) noted</li> </ul>
<b>ISSUE SUMMARY:</b>
<p>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.</p> <p>I certify that the information presented in this report is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance.</p> <p style="text-align: center;">Signature: <span style="float: right;">Date: 3/28/2022</span></p> <div style="text-align: center;">               Matt Carpenter, CEO         </div>
<b>BACKGROUND:</b>
<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"> <li>1. CEO sends Monitoring Report to all board members</li> <li>2. At Board meeting, board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)</li> </ol>
<b>IMPACTS OF RECOMMENDED ACTION(S):</b>
<ol style="list-style-type: none"> <li>1. Governance: Perform key Policy Governance process</li> </ol>
<b>ATTACHMENTS:</b>
<ol style="list-style-type: none"> <li>1. Policy Monitoring Report for Policy 2.6 Cash and Investments</li> </ol>

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POLICY TITLE: EXECUTIVE LIMITATION POLICY 2.6: CASH AND INVESTMENTS	Page #	Compliance
<p>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.</p> <p>Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:</p>	3	
<p>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.</p>	6	
<p>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 Michigan PA 20 of 1943.</p>	7	

 Fully Compliant    
  Partially Compliant    
  Non-Compliant

## CEO Interpretations and Evidence

**EXECUTIVE LIMITATIONS 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: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.6: Interpretation**

Compliance for this policy will be demonstrated when compliance with both lower-level policies are achieved.

**EXECUTIVE LIMITATIONS 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: In Compliance**

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**EXECUTIVE LIMITATIONS POLICY 2.6.1: Interpretation**

Compliance with this policy will be demonstrated when account statements from financial institutions indicate that funds held in checking and money market savings accounts:

1. are held in Federal Deposit Insurance Corporation (FDIC) insured banking institutions, and
2. that deposit accounts generate interest.

This is a reasonable interpretation because the FDIC is an independent agency created by Congress to insure deposits, examine and supervise financial institutions for safety, soundness, and consumer protection, make large and complex financial institutions resolvable, and manage receiverships. Financial institutions backed by the FDIC provide guaranteed insurance up to \$250,000 per deposit account and protects insured depositors by assuming responsibility for failed institutions immediately, minimizing any impact to customers of the failed institution.

Additionally, deposit accounts that generate interest will grow AAATA's money over time.

**EXECUTIVE LIMITATIONS POLICY 2.6.1: Evidence**

Account statements from all financial institutions holding AAATA monies as of December 31, 2022 disclose that:

1. All monies held in bank accounts and investments are in deposit at The Bank of Ann Arbor, which is an FDIC insured bank.
2. All accounts holding AAATA funds produce interest.

#### **EXECUTIVE LIMITATIONS 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 Michigan PA 20 of 1943.

**Degree of Compliance: In Compliance**

#### **EXECUTIVE LIMITATIONS POLICY 2.6.2: Interpretation**

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.

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.

#### **EXECUTIVE LIMITATIONS POLICY 2.6.2: Evidence**

A review of account statements from financial institutions and reconciliations as of December 31, 2021, completed by the CFO, Reed, on March 25, 2022, verified the following:

1. AAATA’s investments were held in Certificates of Deposits (CDs), U.S. Agency Bonds, and 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, the CFO attests:

(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. 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 (0.050% to 0.375%) 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. The balance of each account and the financial instruments used were provided with maturity dates and interest rates. The balances match the information reported on the FY2022 First Quarter financial statements.

For convenience, key financial data related to the above are provided as follows:

As of December 31, 2021, cash, checking, and savings account balances were \$20.8 million and distributed as shown below in Table 2.6A.

**Table 2.6A**

<b>Cash, Checking and Money Market Balances</b>	
<i>(\$ in thousands)</i>	
<b>Cash, Checking or Money Market Account</b>	<b>As of 12/31/2021</b>
IMPREST	\$ 333
OPERATING	577
PAYROLL	28
CHANGERS/PETTY	3
PASSES/TOKENS	21
CAPITAL	1,798
FLEX SPENDING	56
MONEY MARKET SAVINGS	17,846
GETDOWNTOWN	179
<b>Total Cash, Checking &amp; Money Market</b>	<b>\$ 20,841</b>

As of December 31, 2021, investment account balances totalled \$11.8 million and distributed as shown below in Table 2.6B.

**Table 2.6B**

**Investments Summary**

(\$ in thousands)

<b>Investment Instrument</b>	<b>Date of Maturity</b>	<b>Interest Rate</b>	<b>Total as of 9/30/2021</b>	<b>Transactions</b>	<b>Total as of 12/31/2021</b>
Bank of AA - CDARS	3/31/2022	0.150%	\$ 2,503		\$ 2,503
Bank of AA - CDARS	12/30/2021	0.050%	2,506	(2,506)	-
Bank of AA - CDARS	3/31/2022	0.045%	-	2,507	2,507
U.S. Agency Bond	11/6/2023	0.250%	2,000		2,000
U.S. Agency Bond	4/8/2024	0.375%	1,000		1,000
U.S. Agency Bond	8/12/2022	0.125%	1,500		1,500
U.S. Agency Bond	1/19/2024	0.230%	750		750
U.S Treasury Notes	5/15/2023	0.125%	1,500		1,500
Money Market Funds	N/A	0.150%	37	2	39
Mark-to-Market Adjustment			-	(34)	(34)
<b>Total Investments</b>			<b>\$ 11,796</b>	<b>\$ (31)</b>	<b>\$ 11,765</b>

The financial data presented as of December 31, 2021, demonstrates compliance with Policy 2.6 and the Board’s Investment Policy at a single point in time. The CFO attests 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.

Regarding reporting to the Board, a review of monthly Board meeting agendas and minutes conducted by the CFO on March 25, 2022 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 June 2021. FY2021 Q4 investments were reported in November 2021 and FY2022 Q1 investments were presented in March 2022.

## Monitoring Policy 2.6 Cash & Investments

### Guidance on Determining “Reasonableness” of CEO Interpretations

The International Policy Governance Association has developed the following guidance for Board members to use in deciding whether a CEO’s interpretation is “reasonable”:

*An interpretation is deemed to be reasonable when it provides an operational definition which includes defensible measures and standards against which policy achievement can be assessed...*

*Defensible measures and standards are those that:*

- *Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena.)*
- *Are relevant and conceptually aligned with the policy criteria and the board’s policy set.*
- *Represent an appropriate level of fulfillment within the scope of the policy.*

- *“What makes an Interpretation Reasonable and What are the Expectations for the Operational Definition: Policy Governance Consistency Framework Report Number 2”.* International Policy Governance Association. June 11, 2016. Available on the IPGA website.

### Board’s conclusion on monitoring report

The Board has received and reviewed this Monitoring Report.

#### Executive Limitations Report (select one)

The Board finds that the CEO:

- A. **Is in compliance**
- B. Is in compliance, except for item(s) noted.
- C. Is making reasonable progress toward compliance.
- D. Is *not* in compliance or is *not* making reasonable progress toward compliance
- E. Cannot be determined

### Board’s notes

**The Board found the CEO to be (A) in compliance along with a notation of three opportunities for clarifications for 2.6.1:**

1. Question regarding referencing specific accounts that exceed the \$250,000 insured maximum in the interpretation.
2. In the evidence section, request to provide an FDIC produced report about the security of the bank.
3. Request to define and provide evidence of adequate liquidity in operational accounts.