
















ISSUE BRIEF:
Monitoring Report for Policy 2.5 Financial Condition & Activities

Finance Committee Review Date: April 7, 2020

Board Meeting Review Date: April 16, 2020

INFORMATION TYPE:
Decision
RECOMMENDED ACTION(S):
<p>That the Board consider accepting this monitoring report in April as either level:</p> <ul style="list-style-type: none"> • B – In compliance, except for item(s) noted, OR • C – Making reasonable progress toward compliance.
ISSUE SUMMARY:
<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>
BACKGROUND:
<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)
IMPACTS OF RECOMMENDED ACTION(S):
<ul style="list-style-type: none"> • Governance: Perform key Policy Governance process
ATTACHMENTS:
<ol style="list-style-type: none"> 1. Monitoring report for Policy 2.5 Financial Condition and Activities

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 Compliant
  Partially Compliant
  Non-Compliant

Preliminary CEO Interpretations and Evidence

EXECUTIVE LIMITATIONS POLICY 2.5:

With respect to the actual, ongoing financial condition and activities, the CEO will not cause, allow or fail to address the development of fiscal jeopardy or deviation of actual expenditures from Board priorities established in Ends policies. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Degree of Compliance: Partial Compliance

EXECUTIVE LIMITATIONS POLICY 2.5: Interpretation

I interpret this policy to mean I am responsible for ensuring the implementation of the Board-approved budget and ensuring sufficient internal control and risk management for financial matters. In addition, I am responsible to address unforeseen events resulting in any significant deviations from budgeted expenditures, or requiring use of reserves to cover shortfalls, as well as those that disrupt service delivery or delay or cancel approved initiatives. I must take all reasonable precautions to prevent and/or mitigate financial risks (fiscal jeopardy) that result from human error, fraud, or external economic conditions that bear upon the Authority. Further, all of TheRide's activities and costs must be demonstrably related to accomplishing the Board's Ends. Compliance with this overall policy will be demonstrated by compliance with the following sub-policies.

EXECUTIVE LIMITATIONS POLICY 2.5: Evidence

- See monitoring reports for sub-policies.

EXECUTIVE LIMITATIONS POLICY 2.5.1:

Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.1: Interpretation

I interpret this policy to mean TheRide will meet Governmental Accounting Standards Board (GASB) and Internal Control (cash handling, fund handling, and financial management) standards. On an annual basis, an external audit firm will assess TheRide's policies, processes, and procedures for compliance and appropriateness. I will incorporate auditor's suggestions when appropriate.

EXECUTIVE LIMITATIONS POLICY 2.5.1: Evidence

Financial management, cash handling, and accounting policies and procedures are described in detail in TheRide's *Internal Control System Manual*, which was updated by Finance staff and adopted by the CEO in 2019. This manual was developed to ensure compliance with Federal standards and these Board policies.

GASB is the source of accounting reporting standards and generally accepted accounting principles used by local governments in the United States. Finance personnel follow the accounting standards established by GASB.

Financial auditors recently completed an audit for the FY2019 financial statements. Auditors test internal controls and accounting standards during the process of their audit. While they "do not express an opinion on the effectiveness of" internal controls (Audit 2019, p. 44), they do report upon any material weaknesses they find in accounting, financial reporting, and internal controls. No such material weaknesses in internal control were found in the 2019 audit.

EXECUTIVE LIMITATIONS POLICY 2.5.2

Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.2: Interpretation

AAATA will operate in compliance with regulations, master agreements, federal circulars, and state manuals associated with funding. AAATA will take care in its administration of grants. Federal compliance will be tested annually by an independent audit firm, and federal compliance every three years by a Federal Transit Administration auditor (this last occurred in 2018). AAATA will utilize a procurement manual that includes the latest requirements.

EXECUTIVE LIMITATIONS POLICY 2.5.2: Evidence

Federal Compliance: The auditors stated that AAATA “complied, in all material respects, with the types of compliance requirements ... that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019” (p. 47). One finding of significant deficiency was reported by the auditor; details are provided in the audited financials on pp. 51-54. This finding has to do with non-compliance in subawards of federal funds, after testing of grant subawards made prior to 2019 found that agreements did not include all of the federally-required elements. This is the same issue that resulted in findings of non-compliance in the FY2018 FTA Triennial Review, which has since been corrected, and such corrections were accepted by FTA during the Triennial Review closeout.

FTA Triennial Review: The FY2018 Triennial Review found that AAATA was fully compliant in 15 of 20 areas reviewed. Findings of non-compliance resulted in 5 areas of review, including financial management, grants management, oversight of subrecipients, procurement, and the Disadvantaged Business Enterprise (DBE) program. Findings were for outdated procedures, policies and procedures missing required elements, late or missing reports, and missing clauses in contracts. All findings have been corrected, corrections have been accepted by FTA, and no jeopardy to federal funding has resulted.

State Compliance: Grant agreements from the Michigan Department of Transportation are fully awarded and executed for FY2019 and for FY2020, with no findings of non-compliance reported by MDOT.

Procurement Manual: TheRide’s Procurement Manual was updated and adopted by the CEO in October, 2018, which was during FY2019. Procurement thresholds established in federal regulations and Board policy were updated along with the DBE policy in correction of findings from the 2018 FTA Triennial Review.

EXECUTIVE LIMITATIONS POLICY 2.5.3:

Receive, process or disburse funds under controls that are insufficient to meet the Board-appointed auditor's standards.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.3: Interpretation

I understand this policy to mean that staff are prohibited from handling the AAATA's funds while using internal controls that are insufficient to meet the Board's auditor's standards. Internal controls are defined as processes designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This is the most widely accepted definition and comes from the Committee of Sponsoring Organizations (COSO). It focuses upon the fiduciary responsibilities of the Board of Directors, management, and other personnel, given that AAATA is a local government entity that handles public funds.

EXECUTIVE LIMITATIONS POLICY 2.5.3: Evidence

Receipt, processing, and disbursement of funds is controlled by procedures identified in TheRide's *Internal Control System Manual*, which was updated and adopted by the CEO as an administrative policy in FY2019. It includes three types of internal controls:

1. Environmental Controls: the set of policies, standards and procedures that provide the Board's expectations for carrying out the internal control system. Board policies, executive and management leadership, the organization structure, personnel policies and practices, insured risks to cover losses, and monitoring for "red flags" are all examples of environmental controls.
2. Administrative Controls: are managerial policies, standards, and procedures that interpret and put into practice internal controls. Examples are internal control standards that cover the authorization of transactions, separation of duties, access to software and records, procedures to run trial balances and reconcile accounts, physical audits, documentation, record retention, and security of sensitive information.
3. Other Administrative Controls: Several other documents exist which inform internal controls including employee handbooks and the collective bargaining agreement, the Purchasing Manual, IT Policies, the Award Management Procedure (for managing federal and state grants), and the Transit Asset Management Plan.

Internal controls were reviewed and tested by the auditing firm and no findings resulted.

EXECUTIVE LIMITATIONS POLICY 2.5.4:

Compromise the independence the Board's audit or other external monitoring or advice.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4: Interpretation

I understand this policy to mean that staff should in no way hinder any Board inspection of financial information. The Board's audit, and other inquiries, should be truly independent opinions free of staff influence. The CEO shall not engage the auditing firm to be advisors or consultants. CEO and staff are resources to the auditor, not supervisors or authors of audit opinions. The Board shall have direct and unfettered access to the auditing firm through the firm's pre-audit communication and a post-audit communication as required by U.S. Generally Accepted Auditing Standards, in addition to an auditor's presentation to the Board at a public meeting.

EXECUTIVE LIMITATIONS POLICY 2.5.4: Evidence

Financial auditors recently completed an audit on FY2019 Financial Statements and Federal Programs, following Generally Accepted Auditing Standards, which include stringent independence standards. The Auditors sent a Pre-Audit communication letter in November 2019 to the Board's Audit Task Force. The Draft Independent Auditor's Report has been provided to the Audit Task Force, and the auditor presented the final audit results to the Board of Directors in March, 2020. The auditing firm, UHY LLC, does no consulting or advising with AAATA.

From the Auditor's Management Letter (p. 4):

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

EXECUTIVE LIMITATIONS POLICY 2.5.4.1:

Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Interpretation

I interpret this policy to mean that I am to inform the Board in a timely manner upon becoming aware of fraud, suspected fraud, or financial mismanagement. Fraud is defined as “wrongful or criminal deception intended to result in financial or personal gain.” Financial mismanagement refers to manners of handling AAATA’s finances that could be characterized as without due regard for future implications, as well as “wrong, bad, careless, inefficient or incompetent,” whether deliberate or not.

EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Evidence

An effective internal control system is in place to guard against fraud, recognizing that it is easier to prevent fraud than it can be to detect it. Internal controls identify and mitigate risks of fraud through policies and procedures that act as checks and balances to make it difficult for a person to commit fraud without detection. The internal control system also establishes the responsibility for employees to report fraud when it is suspected or detected, and clarifies the reporting and investigation procedure.

The CEO is required by this policy and also by the Internal Control System to brief the Board about any instances of fraud. Further, fraud is required to be reported to auditors, and to other regulatory bodies such as FTA and the U.S. Department of Transportation’s Office of Inspector General.

The primary means of avoiding financial mismanagement is the fiduciary oversight provided by the Board of Directors and the Finance Committee, who review financial statements quarterly. The CEO, Deputy CEOs, department managers, and others hold accountability for financial performance within the costing centers/business units they manage, with close fiduciary oversight provided by the CEO, CFO, and Manager of Finance.

I attest that neither I, nor the CFO, nor the Manager of Finance are aware of any occurrences of fraud, suspected fraud, or financial mismanagement during the monitoring period, or since I began my work as CEO.

EXECUTIVE LIMITATIONS POLICY 2.5.4.2:

Fail to provide the Board with information and access to internal controls that allows Board review of fraud, suspected fraud or financial mismanagement.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Interpretation

I interpret this policy to mean that I must make available any financial information the Board and its auditors request, including internal controls.

EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Evidence

The Board's primary mechanism to review for fraud and financial mismanagement is the annual financial audit governed by the Audit Task Force. Per the evidence provided previously, in monitoring for Policy 2.5.4, the CEO and staff cooperated by making available financial information and internal controls requested by the auditor.

There have been no other times when the Board, as a whole, has requested access to this information. There are no motions or resolutions on-record requesting such information.

EXECUTIVE LIMITATIONS POLICY 2.5.5:

Allow expenditures that exceed the overall Board-approved budget.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.5: Interpretation

I interpret the phrase “Board-approved budget” to refer to the operating budget for the fiscal year. I interpret the word “overall” to mean that the Board is most concerned that the bottom line of the budget is not exceeded, and I am allowed some discretion in permitting variances among the contributing categories of expenses that comprise the total budget. For example, I have latitude to allow overruns in some line items, or shift resources between types of expenses within the budget, as long as total expenditures do not exceed the approved amount. Non-compliance would therefore be indicated if total expenses exceed the overall budgeted amount.

EXECUTIVE LIMITATIONS POLICY 2.5.5: Evidence

- For FY2019, the board approved operating expenditures of \$46,174,498 (Resolution 02/2019), an amendment to the budget originally adopted (Resolution 10/2018). The amendment was necessary to account for additional revenues and expenses after AAATA was awarded state funding for two pilot projects (autonomous wheelchair securements, and technology from Feonix Mobility Rising to enhance transit use for people with hearing and visual impairments).
- FY2019 final operating expenses (before depreciation) are shown in the audited financials to be \$44,589,168, which is less than FY2019 budgeted expense. Please see page 33 of the FY2019 audit. (Total operating expenses were \$51,581,962 including \$6,992,794 in depreciation expense. The adopted operating budget does not include depreciation.)

EXECUTIVE LIMITATIONS POLICY 2.5.5.1:

Allow cost overruns on capital projects.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Interpretation

I interpret this policy to mean that I cannot spend more money on improvements to capital assets than the amount approved by the Board in annual budgets or budget amendments. Additional expenditures may be approved by the Board, if they see fit.

A capital asset is a significant piece of property typically having a one-time purchase price or ongoing leasing cost, and is distinct from ongoing operating costs such as labor, fuel, services, office supplies, training, etc. Examples of capital assets include land, buildings and their major mechanical components, vehicles and buses, sidewalks and bus pads, bus ways and changes to streets, bus shelters and street furniture, office furniture, tools, computers and in-field technologies, printers, etc. having a value greater than \$5,000. This does not include financial capital, such as money held in a bank account, which are covered under other policies.

I define an *improvement* to a capital asset as substantial change such as initial acquisition, construction, expansion, renovation, or replacement of facilities, vehicles, or equipment. I believe that the emphasis of this policy is on reducing the financial risk from overruns on large projects, such as bus purchases or facility construction, rather than smaller overages on routine purchases, such as replacing computers.

Capital projects, especially larger ones, often take multiple years to deliver after they are approved. Natural cash flow variances within the course of implementing a project can cause costs to occur earlier or later than originally expected without jeopardizing the final cost of the project. Such low-risk fluctuations are called “timing variances” and must be noted in this report.

I will also note that policy 2.11.1.5 requires periodic updates on capital improvement projects.

EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Evidence

For FY2019, the Board adopted a capital budget with a program of projects totaling \$8,987,700 for the following capital projects (*FY2019 Operating and Capital Budget*, p. 21 and Resolution 02/2019, Budget Amendment):

Following are actual expenditures and variances from budget for FY2019:

FY2019 Capital Budget and Expenditures

Category	Capital Program	Budget	Expenditure	Variance from Budget	Cost Overruns?
State of Good Repair	Large Bus Replacement	4,053,000	-	(4,053,000)	No
	Facilities Rehabilitation	2,000,000	975,698	(1,024,302)	No
	Bus Components, Tools, Equipment	1,050,000	347,282	(702,718)	No
	IT Hardware and Software	668,000	484,431	(183,569)	No
	Small/Medium Bus Replacement	180,000	-	(180,000)	No
	Architecture and Engineering	180,000	53,291	(126,709)	No
	Furniture Replacement	150,000	136,044	(13,956)	No
	Non-Revenue Vehicle Replacement	100,000	82,804	(17,196)	No
Value Added	Feonix Mobility Technology	207,200	-	(207,200)	No
	Rider Amenities/Accessiblity	150,000	110,285	(39,715)	No
	Autonomous Wheelchair Securements	120,000	93,756	(26,244)	No
	IT Hardware and Software	32,000	-	(32,000)	No
Expansion	New Mobility Pilots	47,500	-	(47,500)	No
Research and Development	R&D Projects	50,000	-	(50,000)	No
Total		8,987,700	2,283,591	(6,704,109)	No

There were no capital project overruns in FY2019. In fact, expenditures were far lower than budgeted because many of the projects carried over into FY2020. For example, new Gillig buses were placed into service and the roof and HVAC project over the administration facility was completed in first quarter FY2020.

EXECUTIVE LIMITATIONS POLICY 2.5.6:

Authorize contracts not anticipated in the current budget with a value greater than \$250,000.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.6: Interpretation

I interpret this policy to mean that I must obtain Board approval for expenditures with a value greater than \$250,000 that are not specifically listed in the budget document. A list of authorized contractual expenditures was included in the FY2019 budget's appendices on pages 37-38. I can authorize unbudgeted contracts valued at \$250,000 or below without additional approval by the Board. I can also accept revenue contracts (incoming funds) at any value without Board approval.

EXECUTIVE LIMITATIONS POLICY 2.5.6: Evidence

The following budgeted contracts valued at greater than \$250,000 were awarded in FY2019:

CONTRACT DESCRIPTION	AWARDED PROVIDER (TERM)	AWARDED DATE	VALUE OF AWARD
Replace 40' buses	Nova Bus, A Division of Prevoost Car (5 years)	8/31/2019	\$25,000,000
2700 Roof Replacement (Administration Facility)	C & J General Contractors	5/24/2019	\$1,468,500
Infield Communications (VOIP 2.0)	Clever Devices	6/28/2019	\$499,000

No unbudgeted contracts greater than \$250,000 were awarded in FY2019.

EXECUTIVE LIMITATIONS POLICY 2.5.6.1:

Split purchases or contracts into smaller amounts in order to avoid the above limit.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Interpretation

I interpret this policy to mean that the staff and I cannot attempt to avoid the requirements of Policy 2.5.6 by splitting expenditures into smaller amounts less than \$250,000.

EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Evidence

With the exception described below, the Purchasing Manager found no vendors who were awarded multiple contracts bringing award totals above the thresholds of policy in FY2019.

Three vendors were issued multiple purchase orders totaling more than \$250,000 each for the purchase of biodiesel fuel as listed:

Description	Vendor	Amount
Biodiesel fuel	Atlas	\$860,770
Biodiesel fuel	Corrigan	\$686,110
Biodiesel fuel	RKA	\$227,710

The Authority has found it to be an advantageous practice to purchase fuel on the “spot market” rather than awarding a single contract. Procurement personnel and the CFO are evaluating whether awarding a single fuel purchase contract could lower expense, however, TheRide has been able to buy fuel at lower prices on the spot market to date.

While costs were within the adopted budget for fuel, it was discovered when monitoring for this policy last year that these contracts were not specifically identified in budgeting, an oversight which was corrected in the adopted FY2020 budget (see p. 39).

This policy is now in compliance since the problem was corrected for the FY2020 budget.

EXECUTIVE LIMITATIONS POLICY 2.5.7:

Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages.

Degree of Compliance: Not in Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.7: Interpretation

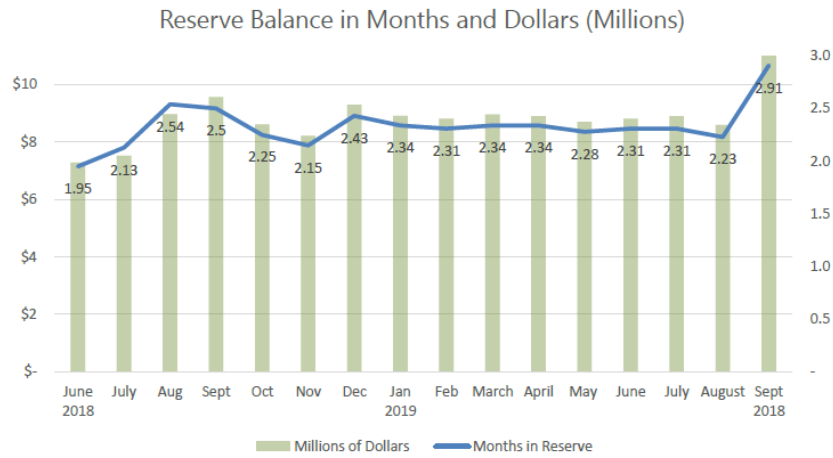
I understand this policy to mean that I must establish an administrative policy that identifies an appropriate level of operational reserve funding that would insulate the AAATA from financial disruptions or emergencies. Furthermore, this reserve fund must be fully funded and ready to be used if needed.

In the recent past, near-term core operating expenses was defined as unrestricted net assets available to support 2.5 months of normal operations. Retained “unrestricted net assets” comprise the “reserve fund.”

Staff and I have since determined that our reserve policy target should remain at 2.5 months of operating expenses available for operations. Research on public sector practices has confirmed that 2.5 months is a reasonable standard. It is my interpretation that we will be in compliance with this policy when AAATA’s quarterly financial statements demonstrate a reserve balance of at least 2.5 months of operating expenses quarterly for a period of one year.

EXECUTIVE LIMITATIONS POLICY 2.5.7: Evidence

AAATA ended FY2019 with a reserve balance of \$9.6 million, capital sufficient to support 2.9 months of operations. This year-end peak was due in part to one-time draws of expiring federal grants late in the fiscal year. While the reserve balance finished the year well above the target of 2.5 months, the reserve balance was consistently below the target during the monitoring period:



Corrective steps have been taken to continue addressing the deficient reserve balance during FY2020. However, now the COVID-19 pandemic has resulted in unexpected financial challenges this year, an emergency which is likely to require some use of reserves. The CEO is grateful for the progress that has been made on the reserve as this has strengthened our position of readiness to handle this crisis.

Progress toward this target will continue to be monitored, and while positive progress has been made, this policy is listed as non-compliant because the reserve balance remains insufficient to meet 2.5 months of near term operating expenses.

EXECUTIVE LIMITATIONS POLICY 2.5.8:

Adjust transit passenger fares or tax rates assessed by the Authority.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.8: Interpretation

I understand this policy to mean that staff cannot change the prices for any passenger fares (cash, tokens, tickets, passes, etc.) without Board authorization. Furthermore, staff cannot adjust the tax rate levied by the AAATA without Board authorization.

Tax rates refers to local property taxes levied upon property owners who live in our taxation districts.

The CEO must bring any fare or tax adjustments to the Board for approval. In Michigan, taxes may be changed only with signature of the Board Chair and Secretary on Michigan Form L4029. Tax proposals and renewals must be approved by governance bodies and voters.

EXECUTIVE LIMITATIONS POLICY 2.5.8: Evidence

TheRide did not adjust passenger fares in FY2019 or for FY2020. Current and proposed fares for the FY2020 budget were included in the adopted budget in Appendix 4, and remained unchanged. All current fares are available on the website at <http://www.theride.org/Fares-Passes>. They do not deviate from the fares listed in the FY2020 budget.

Property tax rates were not adjusted in FY2019. The Board of directors last approved a rate change when the restoration rate of 0.7 mills was authorized in April, 2018 (Resolution 8/2018).

EXECUTIVE LIMITATIONS POLICY 2.5.9:

Acquire, encumber, or dispose of real estate.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.9: Interpretation

I understand this policy to mean that staff are prohibited from purchasing or selling land, buildings or any other fixed physical asset without prior Board authorization. Furthermore, prohibited encumbrances include saddling real estate with debt or mortgages, leasing or selling rights to AAATA-owned property, and making encumbrances to real estate which would limit or restrict its use by the AAATA.

Specifically, this Policy applies to three real estate properties owned by the AAATA:

1. Dawn Gabay Operations Center
2. Blake Transit Center
3. Ypsilanti Transit Center

Should the AAATA need to acquire, encumber, or dispose of real estate, I understand this Policy to mean that the Board’s approval would be required first. This policy does not apply to renting property, buildings or facilities needed to facilitate AAATA operations or implementation of Board policies.

EXECUTIVE LIMITATIONS POLICY 2.5.9: Evidence

The FY2019 Statements of Net Position (Annual Audit, p. 7, also Note 7, p. 19) demonstrate that there has been no change in the valuation of land and improvements (\$2,270,821), for FY2019 compared to FY2018. This is evidence that no real estate was acquired or disposed of in FY2019.

Mortgages, leases, and land contracts are recorded at the Washtenaw County Clerk’s Office. A search of the online register finds no such records to date for the Ann Arbor Area Transportation Authority. No properties were encumbered through leasing, mortgaging, or transfer of rights to other parties. All AAATA-owned real estate is available for the Authority’s use.

EXECUTIVE LIMITATIONS POLICY 2.5.10:

Encumber the agency with financial debt without previous authorization from the Board.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.10: Interpretation

I understand this policy to mean that I am prohibited from issuing bonds, which is the only legal form of debt financing available to AAATA under Act 55, without Board approval, or acquiring any other means of indebtedness such as bank loans on behalf of the Authority. I understand that this policy does not apply to trade payables or credit card expenses which are necessary transactions resulting from day-to-day operations and do not encumber the AAATA with debt.

EXECUTIVE LIMITATIONS POLICY 2.5.10: Evidence

Revenue Bonds: AAATA did not issue any bonds in FY2019. No Board resolutions approving the issuance of bonds occurred in FY2019.

Annual Audit: As a regular task during the financial audit, the auditor requires local banks to confirm the balance of all bank accounts reconciles with AAATA's financial statements. This confirmation also inquires about the existence of bank debt. No debt was reported in the FY2019 audited financials.

Monitoring Policy 2.5 Financial Condition & Activities

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 the CEO’s Monitoring Report references above. Following the Board’s review and discussion with the CEO, the Board makes the following conclusions:

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 notes: (If applicable)

The Board voted unanimously that the CEO is in compliance, except for item(s) noted (B) at the April 16th, 2020 AAATA Board meeting.