




**ISSUE BRIEF:**  
**Monitoring Report 2.6 Cash and Investments**




**Finance Committee Review Date: May 12, 2020**

**Board Meeting Review Date: May 21, 2020**

<b>INFORMATION TYPE:</b>
Decision
<b>RECOMMENDED ACTION(S):</b>
<p>Board considers accepting this monitoring report in May as either level:</p> <ul style="list-style-type: none"> <li>• A -- Is in compliance OR</li> <li>• B – In compliance, except for item(s) noted, OR</li> <li>• C – Making reasonable progress toward compliance.</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 is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance.</p>
<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>
<ul style="list-style-type: none"> <li>• Governance: Perform key Policy Governance process</li> <li>• Financial: Demonstrates financial responsibility of cash and investments during the reporting period</li> </ul>
<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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<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. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

**Degree of Compliance: In Compliance**

### EXECUTIVE LIMITATIONS POLICY 2.6: Interpretation

For the purposes of this policy I understand "cash" to mean liquid financial resources held by AAATA in bank checking and savings accounts to cover operating costs over the next 2-3 months, and "surplus capital" to be cash held in investments for use later.

I must ensure that cash and surplus capital are held in financial instruments which accomplish priorities set by the Board:

1. The highest priority is to protect the original sum invested (the "principal") from risk of loss.
2. The second priority is to ensure that an amount of capital adequate to meet short-term needs is available (or "liquid") for the Authority's use.
3. The third priority is to invest in instruments that generate the highest possible financial return ("yield") keeping in mind the principles of prudent investing as stated in the *"Investment Policy to Comply with Michigan PA 20 of 1943"* from the Board Policy Manual Appendix F.

I also understand this policy to mean that capital must be held in bank accounts that are insured by the FDIC to the level of at least \$250,000 for each account, and must be held in accounts which generate interest. This policy allows an exception for capital that needs to be available for immediate use to fund operations, otherwise known as operating cash.

This policy requires compliance with Public Act 20 of 1943 and the Board's Investments Policy. The Investment Policy authorizes the use of Certificates of Deposits, Bonds and other direct obligations of the U.S. (with maturity limited to 3 years or less), or Government Mutual Funds.

## EXECUTIVE LIMITATIONS POLICY 2.6: Evidence

As evidence I point to the balance of cash and investments as of March 31, 2020 as shown on the Q2 financial statements. Bank account statements are available for direct inspection by Board members upon request.

1. AAATA held \$5.1 million in cash, checking, and savings accounts (dollars in thousands):

Account Name:	Balance as of 3/31/2020
IMPREST	\$ 379
OPERATING	903
PAYROLL	53
CHANGERS/PETTY	3
PASSES/TOKENS	16
CAPITAL	115
FLEX SPENDING	46
MONEY MARKET SAVINGS	3,104
GETDOWNTOWN	444
<b>Total Cash:</b>	<b>\$ 5,063</b>

2. \$8.7 million was held in investments as shown below (dollars in thousands):

Investment Instrument	Date of Maturity	Interest Rate	Total as of		Total as of 3/31/2020
			12/31/2019	Transactions	
U.S. Treasury Bill	10/15/2019	1.7%	-		-
U.S. Treasury Bill	11/19/2019	1.7%	-		-
U.S. Treasury Bill	12/26/2019	1.8%	-		-
U.S. Treasury Bill	2/20/2020	1.8%	2,000	(2,000)	-
U.S. Treasury Note	2/15/2020	1.8%	1,000	(1,000)	-
U.S. Treasury Note	8/15/2020	1.6%	1,494		1,494
U.S. Treasury Note	8/31/2020	1.7%	2,000		2,000
CD Other	1/3/2020	1.7%	240	(240)	-
CD Other	3/18/2020	1.6%	240	(240)	-
CD Other	3/30/2020	1.6%	240	(240)	-
CD Other	11/17/2020	1.7%	240	(240)	-
CD Other	1/15/2021	1.7%	-	240	240
CD Other	1/21/2021	1.7%	-	240	240
U.S. Agency Bond	9/28/2020	1.6%	150		150
U.S. Agency Bond	10/30/2020	1.7%	2,000		2,000
U.S. Agency Bond	4/9/2021	1.6%		1,000	1,000
U.S. Agency Bond	8/5/2022	1.6%		1,500	1,500
Money Market Funds	N/A	2.0%	2,037	(1,965)	72
<b>Total Investments:</b>			<b>\$ 11,641</b>	<b>\$ (2,945)</b>	<b>\$ 8,696</b>

### Safety of Principal:

Cash was held in checking and savings accounts at the Bank of Ann Arbor. Bank accounts are Federal Deposit Insurance Corporation (FDIC) insured.

AAATA's investments were held in Certificates of Deposits (CDs), U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency Bonds, and Money Market Savings at the Bank of Ann Arbor. All funds are federally-insured or direct obligations of the U.S. government.

### Adequate Liquidity:

Cash held in checking and savings accounts is immediately available. Capital held in investments is available within 30-days' notice to the Bank of Ann Arbor. Liquidity has been sufficient to meet the operating needs during the monitoring period as evidenced by the fact that AAATA has been able pay its expenses without using debt, and no expense was deferred due to insufficient liquidity of capital.

Highest Yield Compatible with Prudent Investing:

Yields on investments (1.6 to 2.0%) are the highest rates available considering the limited investment options available due to policy and regulatory limits, and the priorities for safety and liquidity. AAATA's portfolio yielded \$141,824 for FY2019, nearly four times the investments yield over the prior year. FY2020 investment income through the Second Quarter has been \$151,243, so investments performed well during the first half of the year. Investment income will be lower during the Third and Fourth quarters as funds will be needed to support operations.

Attestation:

The financial data presented as of March 31, 2020 demonstrates compliance at a single point in time with Policy 2.6 and the Board's Investment Policy. Additionally, I attest that cash and investments were held in compliance with this policy throughout the monitoring period. Monthly account statements are available for inspection.

**EXECUTIVE LIMITATIONS POLICY 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.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.6.1: Interpretation**

I understand this policy to mean that capital must be held in bank accounts that are insured by the FDIC to the level of at least \$250,000 for each account, and must be held in accounts which generate interest. This policy allows an exception for capital that needs to be available for immediate use to fund operations, otherwise known as operating cash.

**EXECUTIVE LIMITATIONS POLICY 2.6.1: Evidence**

I have not caused, allowed, or failed to address any deviation from this policy as supported by the following evidence:

- All funds held in U.S. Treasury Bills, Treasury Notes, and Agency Bonds are federally-guaranteed.
- Funds managed by Bank of Ann Arbor in CDs and Money Market Savings are federally-insured.
- Bank accounts with balances above the FDIC insured limit of \$250,000 are for needed for short term operations, according to the exception in this policy.
- Each is an interest-bearing account, with interest rates listed in the table above.
- Account statements are available to Board Members as source documentation for direct inspection upon request.

**EXECUTIVE LIMITATIONS POLICY 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.

**Degree of Compliance: In Compliance**

**EXECUTIVE LIMITATIONS POLICY 2.6.2: Interpretation**

I interpret this policy to mean that the AAATA must comply with Public Act 20 of 1943, have the required Board-approved policy, and is limited to investment instruments outlined in that policy. Public Act 20 requires public agencies to have an adopted policy that states purpose, scope, and objectives, delegates authority to make investments, sets standards for safety, safekeeping and prudent investing, and lists the types of investment instruments that are authorized. AAATA must have a Board-adopted policy for investments that includes the required elements.

The Investment Policy authorizes use of the following investment instruments: Certificates of Deposits, Bonds and other direct obligations of the U.S. (maturity limited to 3 years or less), or Government Mutual Funds. The policy notes that it does not apply to employee pension funds.

**EXECUTIVE LIMITATIONS POLICY 2.6.2: Evidence**

As evidence of compliance I submit the following:

1. The Board adopted the referenced investment policy including the elements required by Public Act 20 in January 2018. It has been added to Appendix F of the Board’s Policy Manual.
2. Invested funds were/continue to be held in Certificates of Deposit accounts and U.S. Treasury Bills, Notes, and Agency Bonds, which are authorized investment instruments.
3. Funds invested in the MERS Retirement Savings are pension funds managed by Municipal Employee’s Retirement System of Michigan. The investment policy states it does not apply to pension funds.

## 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 Finance Committee has received and reviewed the CEO’s Monitoring Report references above. Following the Finance Committee’s review and discussion with the CEO, the committee makes the following conclusions:

**Executive Limitations Report (select one)**

The Finance Committee 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

### Finance Committee notes: (If applicable)

The Board voted unanimously that the CEO is in compliance (A) at the May 21st, 2020 AAATA Board meeting.