

Monitoring Report 2.6 Cash and Investments

Monitoring Period: January 2021 – June 2021

Finance Committee Review Date: August 10, 2021

Board Meeting Review Date: August 19, 2021








INFORMATION TYPE:
Decision
RECOMMENDED ACTION(S):
<p>Board reviews this monitoring report and completes the survey provided in this link by August 2, 2021.</p> <p>Board considers accepting this monitoring report in August as either level:</p> <ul style="list-style-type: none"> • A – In compliance, OR • B – In compliance, except for item(s) noted
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> <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: Date: 7/26/2021</p> <p style="text-align: center;"> Deputy CEO, Finance & Administration</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):
<ol style="list-style-type: none"> 1. Governance: Perform key Policy Governance process
ATTACHMENTS:
<ol style="list-style-type: none"> 1. Policy Monitoring Report for Policy 2.6 Cash and Investments

Table of Contents

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

Monies held by AAATA are to be invested according to three priorities established in the policy, and are organized in two distinct categories:

1. "Cash for short-term operations" means money held in checking and savings accounts needed to cover operating costs over the next 2-3 months, and
2. "Surplus capital" means money held in investments for use later on.

Compliance for this policy will be demonstrated when account statements from financial institutions and corresponding account reconciliations confirm that the balances and financial instruments are as reported to the Board in quarterly financial reports, and when compliance with both lower level policies is achieved.

This is a reasonable interpretation because financial reporting discloses cash and investment balances and the instruments (types of accounts) funds are held within using accounting standards from the Governmental Accounting Standards Board (GASB).

EXECUTIVE LIMITATIONS POLICY 2.6: Evidence

A review of account statements from financial institutions and reconciliations as of June 30, 2021, completed by the CFO on July 22, 2021, verified the balance of each account, the financial instruments used, and that these match the information reported on the FY2021 Third Quarter financial statements.

The financial data are included below for the convenience of the reader:

1. As of June 30, 2021, cash, checking, and savings account balances were \$5.7 million and distributed as shown in Table 2.6A.

Table 2.6A

Cash, Checking and Money Market Balances	
<i>(\$ in thousands)</i>	
Cash, Checking or Money Market Account	As of 6/30/2021
IMPREST	\$ 310
OPERATING	544
PAYROLL	24
CHANGERS/PETTY	3
PASSES/TOKENS	19
CAPITAL	1,998
FLEX SPENDING	63
MONEY MARKET SAVINGS	2,613
GETDOWNTOWN	141
Total Cash, Checking & Money Market	\$ 5,715

2. As of June 30, 2021, investment account balances totalled \$11.8 million and distributed as shown in Table 2.6B.

Table 2.6B

Investments Summary					
<i>(\$ in thousands)</i>					
Investment Instrument	Date of Maturity	Interest Rate	As of 3/31/2021	Transactions	As of 6/30/2021
Bank of AA - CDARS	4/1/21	0.200%	\$ 2,500	\$ (2,500)	\$ -
Bank of AA - CDARS	3/31/22	0.150%	-	2,502	2,502
Bank of AA - CDARS	9/30/21	0.250%	2,500	-	2,500
U.S. Agency Bond	11/6/23	0.250%	2,000	-	2,000
U.S. Agency Bond	4/9/21	1.600%	1,000	(1,000)	-
U.S. Agency Bond	4/8/24	0.375%	-	1,000	1,000
U.S. Agency Bond	8/12/22	0.125%	1,500	-	1,500
U.S. Agency Bond	1/19/24	0.230%	750	-	750
U.S Treasury Notes	5/15/23	0.125%	1,500	-	1,500
Money Market Funds	N/A	0.150%	32	8	40
Mark-to-Market Adjustment			9	(11)	(2)
Total Investments			\$ 11,791	\$ (1)	\$ 11,790

The financial data presented as of June 30, 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.

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

EXECUTIVE LIMITATIONS POLICY 2.6.1: Interpretation

Compliance with this policy will be demonstrated when account statements from financial institutions indicate that funds:

1. are held in accounts that are federally insured to the level of at least \$250,000 per account, and
2. that such accounts generate interest.

This is a reasonable interpretation because the Federal Deposit Insurance Corporation (FDIC) insures the amount of deposits, guaranteeing the availability of funds to the \$250,000 level, and accounts that generate interest will grow AAATA's money over time.

This policy allows an exception for monies that need to be available for ease in operational transactions. This is interpreted as operating cash held in operating and payroll-related checking accounts and the money market savings account held at Bank of Ann Arbor, as well as cash held in change drawers and petty cash.

EXECUTIVE LIMITATIONS POLICY 2.6.1: Evidence

Account statements from all financial institutions holding AAATA monies as of June 30, 2021 disclose that:

1. All monies held in bank accounts and investments are federally-insured to at least the level of \$250,000.
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

The Investment Policy was adopted by the Board in 2018 as legally-required by Michigan Public Act 20 of 1943 (see Appendix F in the Board Policy Manual).

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. 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.
2. After review of account statements, the CFO attests that 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. This is reasonable because the Board has made its priorities for investments clear in its policy and has delegated authority to make investments in alignment with these priorities to the CFO.
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 the Board has required quarterly financial reports in its policy, and financial reporting is done in accordance with GASB accounting standards.

EXECUTIVE LIMITATIONS POLICY 2.6.2: Evidence

A review of account statements from all financial institutions holding AAATA investment monies as of June 30, 2021, completed by the CFO on July 22, 2021, verified that:

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 (0.125% to 1.600%) 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. Regarding reporting to the Board, a review of monthly Board meeting agendas and minutes conducted by the CFO on July 22, 2021 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 December 2020. FY2021 Q2 investments were reported in May 2021 and FY2021 Q3 investments will be presented in August 2021.

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)

At the August 19, 2021 Board meeting, the Board accepted the CEO as in compliance (A).