Monitoring Report 2.6 Cash and Investments

Monitoring Period: January 2022 – July 2022

Finance Committee Review Date: November 8th, 2022
Board Meeting Review Date: November 17th, 2022

INFORMATION TYPE:
Decision
RECOMMENDED ACTION(S):
The Finance Committee recommends that the Board accept the Monitoring Report as A, In Compliance.
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. 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. Signature: Date: 10/28/2022 Matt Carpenter, CEO
BACKGROUND:
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: 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):
1. Governance: Perform key Policy Governance process
ATTACHMENTS:
1. Policy Monitoring Report for Policy 2.6 Cash and Investments

TheRide
Ann Arbor Area Transportation Authority

Table of Contents

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

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 where all accounts are FDIC insured up to $250,000, 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. Also, some accounts (Money Market, Capital, Operating, Payroll, and Imprest) may at any time exceed the $250,000 threshold for insured cash. This is necessary to comply with facilitating ease of financial transactions portion, as allowed under this policy. 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 cash flow. Any 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. 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 June 30, 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 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 an A+ rating as of June 2022 for overall bank health. Rating summaries are provided as an attachment to this report. 2. Cash held in accounts that exceed federally insured limits were required to facilitate ease of transactions. At the end of Q3 2022, there was $6.8 million in cash, checking and money market balances (excluding CDARS-ICS money market funds), $5.5 million of which were uninsured. Operating expenses during this time period were

approximately $4.3 million per month. All uninsured balances were required to facilitate ease of financial transactions.

3. 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 insitutions and reconciliations as of June 30, 2022, completed by the CFO, Reed, on September 2, 2022, 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, the CFO attests:

    <u>(a) Safety of Principal:</u> 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 (0.13% to 3.25%) 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 conducted by the CFO on September 1, 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 April 2022. FY2022 Q2 investments were reported in May 2022 and FY2022 Q3 investments were presented in August 2022.

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

As of June 30, 2022, cash, checking, and money market account balances were $9.8 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 6/30/2022**
IMPREST	$	258
OPERATING		635
PAYROLL		33
CHANGERS/PETTY		3
PASSES/TOKENS		23
CAPITAL		1,815
FLEX SPENDING		54
MONEY MARKET SAVINGS		3,746
CDARS-ICS*		3,005
GETDOWNTOWN		186
Total Cash, Checking & Money Market	**$**	**9,758**

*CDARS-ICS program is fully insured up to $75 million.

As of June 30, 2022, investment account balances totalled $19.7 million and 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 3/31/2022**	**Transactions**	**Total as of 6/30/2022**
U.S. Agency Bond	8/12/2022	0.13%	$ 1,500	$ -	$ 1,500
U.S. Agency Bond	11/6/2023	0.25%	2,000	-	2,000
U.S. Agency Bond	1/19/2024	0.23%	-	750	750
U.S. Agency Bond	4/8/2024	0.38%	1,000	-	1,000
U.S. Agency Bond	9/15/2024	2.88%	-	2,500	2,500
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 Treasury Notes	5/15/2023	0.13%	1,500	-	1,500
U.S Treasury Notes	6/30/2024	3.00%	-	2,000	2,000
Money Market Funds	N/A	0.15%	36	139	175
Mark-to-Market Adjustment	N/A		(146)	(120)	(266)
Total Investments			**$ 5,890**	**$ 13,769**	**$ 19,659**

The financial data presented as of June 30, 2022, 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.

Policy Trendline

In FY 20 and FY21, this policy was reviewed annually. After a policy schedule review the Board decided to review this policy twice a year as shown below.

The FY22 (2nd review) compliance levels noted below are based on CEO's assessment and are preliminary. Final compliance level will be determined by the Board.

Policy	**FY 20**	**FY 21**	**FY 22 (1st review)**	**FY 22 (2nd review)**
2.6	3	3	3	3
2.6.1	3	3	3	3
2.6.2	3	3	3	3

Health

A+

Data as of Q2 2022

Learn why bank health matters

Health Grade Components

A+ Texas Ratio ▲	A+ Texas Ratio Trend ▼	A+ 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 June 30, 2022 Bank of Ann Arbor had $6.17 million in non-current loans and owned real-estate with $368.48 million in equity and loan loss allowances on hand to cover it. This gives Bank of Ann Arbor a Texas Ratio of 1.67% 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	316
Primary Regulator	FDIC

Profit Margin	
Return on Assets - YTD	1.34%
Return on Equity - YTD	13.48%
Annual Interest Income	$52.9MM

Assets and Liabilities		
Assets	Q2 2022 vs Q2 2021	$3.26B $2.56B
Loans	Q2 2022 vs Q2 2021	$2.09B $1.50B
Deposits	Q2 2022 vs Q2 2021	$2.81B $2.18B
Equity Capital	Q2 2022 vs Q2 2021	$335.2MM $229.0MM
Loan Loss Allowance	Q2 2022 vs Q2 2021	$33.3MM $35.2MM
Unbacked Noncurrent Loans	Q2 2022 vs Q2 2021	$5.8MM $7.9MM
Real Estate Owned	Q2 2022 vs Q2 2021	$381.00K $716.00K

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

Health

A+

Data as of Q2 2022

Learn why bank health matters

Health Grade Components

A+ Texas Ratio	A+ Texas Ratio Trend	A+ Deposit Growth	A Capitalization

The Texas Ratio for Bank of Ann Arbor decreased dramatically from 3.28% as of June 30, 2021 to 1.67% as of June 30, 2022, resulting in a positive change of 48.87%.This indicates that the balance sheet and financial strength for Bank of Ann Arbor has improved dramatically in recent periods.

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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 <u>or</u> is *not* making reasonable progress toward compliance

E. Cannot be determined

Board's notes