

TheRide

## 2.5 Financial Conditions and Activities

Monitoring Report for the Period: October 1, 2016 – September 30, 2017

Date of Report: Tuesday, January 30, 2018

Board Survey due: Monday, February 5, 2018

Finance Committee Review: Tuesday, February 6, 2018

Board Review: Thursday, February 15, 2018

TheRide Board of Directors;

In accordance with the Board's Policy Manual; I present the February Monitoring report on **Executive Limitation Policy 2.5: Financial Conditions and Activities**. This report combines an external report information from the financial auditor and internal report information from staff. The auditor examines the financial statements, investments, Federal grant funds, and fund handling, but not the budget. Though these policies were not all in affect during FY2017, I have assembled this report as if they were.

I certify that the information is true and complete.

Matt Carpenter,  
CEO  
Ann Arbor Area Transportation Authority

## Policy being monitored:

### 2.5 FINANCIAL CONDITION AND ACTIVITIES

	<b>Page</b>
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:	3
2.5.1 Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.	7
2.5.2 Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.	10
2.5.3 Receive, process or disburse funds under controls that are insufficient to meet the board-appointed auditor's standards.	11
2.5.4 Compromise the independence of the board's audit or other external monitoring or advice.	12
2.5.4.1 Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.	13
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	14
2.5.5 Allow expenditures that exceed the overall Board-approved budget.	15
2.5.5.1 Allow cost overruns on capital projects.	
<del>2.5.6 Invest or hold operating capital in insecure instruments, including uninsured checking accounts, or bonds of less than AA rating at any time, or non interest-bearing accounts, except where necessary to facilitate ease in operational transactions.</del>	18
2.5.7 Authorize contracts not anticipated in the current budget with a value greater than \$250,000.	19
2.5.7.1 Split purchases or contracts into smaller amounts in order to avoid the above limit.	20
2.5.8 Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages	21
2.5.9 Adjust transit passenger fares or tax rates assessed by the Authority.	23
2.5.10 Acquire, encumber, or dispose of real estate.	24

**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.*

**Current Interpretation & Rationale**

I understand this policy to mean that I am obligated to proactively prevent or resolve situations which could place AAATA’s financial condition, including its treasury funds and revenues, at risk of harm, loss, or failure which would risk the agency’s ability to deliver the Board’s Ends outcomes. I interpret “fiscal jeopardy” to mean permitting insufficient or unrealistic revenue projections to provide for budgeted operating and capital expenditures for the current fiscal year and four subsequent years, or permitting any fiscal period to end with insufficient liquid or near liquid assets to sustain normal operations for at least 2.5 months.

Further, all of TheRide’s activities and costs must be demonstrably related to accomplishing the Board’s Ends. I interpret this to mean that I must not permit resources to be applied in such a way that the Ends cannot be achieved according to the priorities specified by the Board.

Compliance will be demonstrated when:

- 1) **Reserve:** Financial reporting will show at least 2.5 months expenses in liquid or near-liquid unrestricted net assets for 12 preceding months.
- 2) **Revenues:** At no point in time will Federal and state grant funds, property tax revenues, fares, or other operating revenues fail to be available for the current year to meet the budget for expenditures, or fail to be planned and programmed for subsequent years.
- 3) **Expenditures:** Planned expenditures will be demonstrably sufficient so that Board’s Ends are being achieved.

**Evidence**

- 1) **Reserve:** TheRide’s budgeted operating expense for FY2018 is \$43.258 million. Therefore, 2.5 months’ operating expenses would be \$9.01 million. At this point in the year (end of first quarter) we have \$8.1 in reserve as shown in the *FY2018 First Quarter Balance Sheet*. These assets are liquid or can be converted to liquid assets upon no more than 30-days’ notice. (Not compliant. Additional discussion has been provided in the Monitoring Report for Policy 2.5.8.)
- 2) **Revenues:** The Board-adopted *FY2018 Operating and Capital Budget* plans \$43.258 million in operating expense and \$4.206 million in capital expense. The following revenues are available and adequate to cover FY2018 budgeted operating expenses:

<b>Revenue Source</b>	<b>Millions of Dollars</b>
Passenger Revenue	\$8.950
Local Property Tax Revenue	\$15.566
State Operating Assistance	\$14.355

Federal Operating Assistance	\$3.250
Other Federal Operating	\$1.597
Advertising, Interest, Other	\$0.318
<b>Total Revenue:</b>	<b>\$44.036</b>

For FY2017, actual revenues totaled \$41.688 million, which was 5.8% lower than budgeted. However:

- TheRide had a \$1.3 million surplus of revenue over expense for the fiscal year, which is favorable.
- Revenues were lower than budgeted by \$2.5 million, and expenses were \$3.8 million below budget.
- AAATA ended the year in sound financial condition with revenues sufficient to meet expenses.

Budgeted capital expenditures for FY2018 are as follows:

<b>Expenditure</b>	<b>Millions of Dollars</b>
State of Good Repair	\$3.123
Value Added	\$0.103
Expansion	\$0.980
<b>Total Expenditure:</b>	<b>\$4.206</b>

Adequate federal and state funds exist in fully executed grant agreements so we are ready to meet these expenditures.

The adopted budget includes operating projections through FY2024 and capital projections through FY2027. Operating and capital revenues for subsequent years are programmed in the Transportation Improvement Plan (TIP) and are anticipated be available as planned for the next five years. However, local property tax revenues as projected are dependent upon passage of the renewal/replacement millage later this year, and federal funds will be dependent upon annual federal funding authorizations.

4) Expenditures: AAATA delivered the services promised in the FY2017 budget toward achieving the Board's ends (note: FY2017 data is not final and subject to review by FTA).

<b>ALL MODES</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>All Modes (Combined)</i>			
Operating Expense	32,827,801	32,802,465	39,495,051
Revenue Hours	349,509	411,032	438,733
Revenue Miles	4,757,609	5,197,510	5,565,881
Unlinked Passenger Trips	6,687,825	6,653,770	6,941,860
Passenger Miles Traveled	30,023,229	26,879,979	27,580,499
Cost Per Revenue Hour	93.93	79.81	90.02
Cost Per Revenue Mile	6.90	6.31	7.10
Cost Per Passenger Trip	4.91	4.93	5.69
Cost Per Passenger Mile	1.09	1.22	1.43

<b>Fixed-Route Bus (MB DO)</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>Fixed-Route Bus, Directly Operated</i>			
Operating Expense	27,251,090	27,984,278	30,268,598
Revenue Hours	219,272	246,278	280,886
Revenue Miles	2,681,362	3,026,342	3,460,748
Unlinked Passenger Trips	6,327,729	6,291,695	6,596,905
Passenger Miles Traveled	25,589,993	22,461,351	23,183,887
Cost Per Revenue Hour	124.28	113.63	107.76
Cost Per Revenue Mile	10.16	9.25	8.75
Cost Per Passenger Trip	4.31	4.45	4.59
Cost Per Passenger Mile	1.06	1.25	1.31

<b>Commuter Bus (CB DO)</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>Fixed-Route Commuter Bus, Directly Operated</i>			
Operating Expense	314,128	284,700	264,309
Revenue Hours	2,081	2,083	2,083
Revenue Miles	55,078	55,114	55,078
Unlinked Passenger Trips	32,249	29,414	26,212
Passenger Miles Traveled	581,891	499,744	445,342
Cost Per Revenue Hour	150.95	136.68	126.89
Cost Per Revenue Mile	5.70	5.17	4.80
Cost Per Passenger Trip	9.74	9.68	10.08
Cost Per Passenger Mile	0.54	0.57	0.59

<b>Commuter Bus (CB PT)</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>AirRide, Purchased Transportation</i>			
Operating Expense	1,285,970	195,924	1,366,918
Revenue Hours	8,961	9,141	8,997
Revenue Miles	290,810	296,671	279,442
Unlinked Passenger Trips	80,350	84,429	84,752
Passenger Miles Traveled	2,264,263	2,379,209	2,247,623
Cost Per Revenue Hour	143.51	21.43	151.93
Cost Per Revenue Mile	4.42	0.66	4.89
Cost Per Passenger Trip	16.00	2.32	16.13
Cost Per Passenger Mile	0.57	0.08	0.61

<b>Demand Response (DR PT)</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>A-Ride, WAVE, People's Express, JFS, Avalon, Purchased Transportation</i>			
Operating Expense	2,142,457	4,094,887	6,816,993
Revenue Hours	76,206	135,708	129,673
Revenue Miles	1,025,334	1,602,189	1,575,589
Unlinked Passenger Trips	148,973	216,988	205,791
Passenger Miles Traveled	910,075	1,325,027	1,409,147
Cost Per Revenue Hour	28.11	30.17	52.57
Cost Per Revenue Mile	2.09	2.56	4.33
Cost Per Passenger Trip	14.38	18.87	33.13
Cost Per Passenger Mile	2.35	3.09	4.84

<b>Demand Respose Taxi (DT PT)</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<i>Demand Taxi, NightRide &amp; HolidayRide, MyRide, Purchased Transportation</i>			
Operating Expense	1,156,046	129,106	649,939
Revenue Hours	42,989	17,822	17,094
Revenue Miles	705,025	217,194	195,024
Unlinked Passenger Trips	98,524	31,244	28,200
Passenger Miles Traveled	677,007	214,648	294,500
Cost Per Revenue Hour	26.89	7.24	38.02
Cost Per Revenue Mile	1.64	0.59	3.33
Cost Per Passenger Trip	11.73	4.13	23.05
Cost Per Passenger Mile	1.71	0.60	2.21

### **Conclusion on Compliance**

The CEO reports non-compliance due to inadequate reserves. While there are developing risks to our financial condition, the CEO is not causing, allowing, or failing to address each concern:

1. The reserve fund balance is lower than needed to support 2.5 months' operating expense. However, corrective steps were taken with the development of the FY2018 budget and will continue to be addressed in budgeting for next fiscal year. It will take time for the reserve balance to consistently reach the policy threshold. We will continue to monitor as the fiscal year progresses.
2. AAATA's 0.7 millage is set to expire in FY2019. However, the CEO has not failed to address this concern. Efforts are underway to place a millage renewal and replacement before voters in August, and authorization by voters appears to be promising.
3. Political volatility in Washington D.C. which resulted in a federal government shutdown in January is beyond the CEO's ability to control. The FY2018 federal budget is being authorized through continuing resolutions; while the federal fiscal year is midway through its second quarter, the federal government is not fully-funded for the fiscal year. Any fiscal jeopardy which results will not be realized by AAATA until FY2019 because federal funds budgeted for this year were authorized in last year's budget and awards. We will need to continue keeping a close eye upon the status of federal funding for next year's budget.

**Executive Limitations Policy 2.5.1**

*...the CEO shall not ... Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.*

**Current Interpretation & Rationale**

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.

**Evidence**

Financial Auditors recently completed an audit on FY 2017. They particularly focus on accounting, but report on weaknesses they come across in Internal Controls. In 2009, AAATA had a thorough review of Internal Controls done by a firm, Maner Costerisan, and updated Internal Controls procedures. For FY2017 there were no findings of deficiencies in accounting practices or internal controls. Pertinent evidence from both sources is provided here:

**Accounting:** Selections from the Independent Auditor’s Management Letter (pp.3-5):

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2017.

We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements related to the following:

- OPEB (other postemployment benefits) costs, including the actuarial methods and assumptions. These assumptions used are based on plan provisions, healthcare-related trends, and payroll data.
- Allowance for collectability reserve related to local revenue source receivables. The assumptions are based on communications from the City of Ann Arbor, the City of Ypsilanti, and Ypsilanti Township, combined with management’s estimates for uncertainties and historical results.
- Reserve for Act 51 operating assistance revenue. The assumption is based on the estimated reduction of the collective qualifying expenditures by the Authority and RTA member agencies, which could result in less total eligible expenditures to be reimbursed by Act 51 monies from the State of Michigan through the Regional Transportation Authority (RTA). There was no reserve recorded at September 30, 2017.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***Internal Controls:*** Selections from the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (p.43):

In planning and performing our audit of the basic financial statements, we considered Ann Arbor Area Transportation Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.... Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In 2009, AAATA worked with a firm, Maner Costerisan to develop “agreed upon procedures” to ensure an appropriate Internal Control system. All the identified risks from that engagement have been resolved. The Point of Sale system was installed in November 2017.



**Conclusion on Compliance**

In compliance.

**Executive Limitations Policy 2.5.2**

*...the CEO shall not ... Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.*

**Current Interpretation & Rationale**

AAATA will operate in compliance with regulations, master agreements, federal circulars, and state manuals. 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 (2015). AAATA will have an active procurement manual that includes the latest requirements.

**Evidence**

***Federal Compliance:*** Selections from the Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance (p.46):

<p><b>Opinion on Each Major Federal Program</b> In our opinion, Ann Arbor Area Transportation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.</p>
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***FTA Triennial Review:*** In 2015 the FTA found no problems with the AAATA’s internal control or business decisions that would jeopardize federal funding.

***State Compliance:*** Grant agreements from the Michigan Department of Transportation are fully awarded and executed for FY2018.

***Procurement Manual:*** The current procurement manual (adopted 2013) is up-to-date inasmuch as it complies with known regulations. However, it is dated (approved in 2013), somewhat cumbersome and may not incorporate best practices developed since its adoption. While the manual meets all known rules, the CEO does not feel that it is up-to-date and as effective as it could be. An update is planned before the end of 2019.

**Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.3**

*...the CEO shall not ...Receive, process or disburse funds under controls that are insufficient to meet the Board-appointed auditor's standards.*

### **Current Interpretation & Rationale**

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.

### **Evidence**

AAATA is using an Internal Control System that was developed in 2009 with consultation by Maner Costerisan. That consultant was hired to develop agreed upon procedures to ensure use of an appropriate Internal Control System. All the identified risks from that engagement have been resolved over recent years. In FY2017, AAATA implemented a Point of Sale system as the last recommendation from this study, to provide adequate segregation of duties with regard to handling of fare sales by call-taking personnel.

### **Conclusion on Compliance**

In compliance.

**Executive Limitations Policy 2.5.4**

*...the CEO shall not ... Compromise the independence of the Board's audit or other external monitoring or advice.*

**Current Interpretation & Rationale**

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 US Generally Accepted Auditing Standards, in addition to an auditor's presentation to the Board at a public meeting.

**Evidence**

Financial auditors recently completed an audit on FY2017 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 2017 to the Board's Audit Committee. The Draft Independent Auditor's Report has been provided to the Audit Committee, and the auditor will offer a presentation in February to the Board. The auditing firm, Plante Moran, does no consulting or advising with AAATA.

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

***Difficulties Encountered in Performing the Audit***

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

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as 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.

**Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.4.1**

*...the CEO shall not ... Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.*

### **Current Interpretation & Rationale**

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.

### **Evidence**

An effective internal control system is in place to guard against fraud. Neither I, the CFO, nor the Manger of Finance are aware of any occurrences of fraud or suspected fraud since I have begun my work as CEO.

In FY2017, at the CEO’s direction, AAATA completed a financial assessment which indicated that future financial resources were over-committed and the Authority’s financial stability was at risk. I did immediately inform the Board of these findings in May and June of 2017. Several corrections were adopted with the FY2018 budget (August 2018), and continue to be led by the Deputy CEO Finance and Administration.

The FY2017 annual audit has been drafted. From the auditor’s Opinion, p. 1:

The basic financial statements ... present fairly, in all material respects, the financial position of AAATA as of September 30, 2017 and 2016 and the changes in financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States.

### **Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.4.2**

*...the CEO shall not ... Fail to provide the Board with information and access to internal controls that allows Board review of fraud, suspected fraud, or financial mismanagement.*

### **Current Interpretation & Rationale**

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

### **Evidence**

The Board's primary mechanism to review for fraud and financial mismanagement is the annual financial audit. From the Draft FY2017 audit, p. 1:

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

No material weaknesses or significant deficiencies were found in the FY2017 audit (FY2017 Audit, p. 50).

On internal controls, from the Draft FY2017 audit, pp. 43-44:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

### **Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.5**

*...the CEO shall not ... Allow expenditures that exceed the overall Board-approved budget.*

### **Current Interpretation & Rationale**

I interpret the phrase “overall Board-approved budget” to refer to the operating budget for the fiscal year. Use of the word “overall” implies that the Board is most concerned that the bottom line of the budget is not exceeded, even though variances may exist among the contributing categories of expense that comprise the total budget. Non-compliance would therefore be indicated if total expenses exceed the overall budgeted amount.

- For FY2017, the board approved operating expenditures of \$44.173 million (Resolution 25/2016).
- For FY2018, the board approved operating expenditures of \$43.258 million (Resolution 21/2017).

Compliance is determined if actual expenditures did not exceed these amounts.

### **Evidence**

- The *FY2017 Fourth Quarter Financial Statement* shows total operating expenses were \$40.408 million; under budget for the fiscal year by \$3.765 million.
- The *FY2018 First Quarter Financial Statement* shows total to-date operating expenses were \$9.863 million, which is less than the to-date budgeted expense of \$10.566 million, as of December 31, 2017.

### **Conclusion on Compliance**

In compliance.

**Executive Limitations Policy 2.5.5.1**

*...the CEO shall not ... Allow cost overruns on capital projects.*

**Current Interpretation & Rationale**

I interpret this policy to mean that I may not allow expenditures greater than budgeted for each of the capital items listed in the adopted budget.

Capital projects are improvements and additions to AAATA’s assets such as acquisition, construction, expansion, renovation, or replacement of facilities, vehicles, and equipment. Capital assets, rather than being expensed, are depreciated over the useful life of the asset.

For FY2017, the Board adopted a Capital and Categorical Grants program with projects totaling \$8.425 million for the following capital projects:

**FY2017 Capital Plan Adoption:**

<b>Category</b>	<b>Project</b>	<b>Budget</b>
<b>State of Good Repair</b>	Large Bus Replacement	2,400,000
	Hybrid Increment	600,000
	Small/Medium Bus Replacement	120,000
	Vanpool Vehicles	850,000
	Maintenance Components, Tools/Equip.	250,000
	IT Hardware and Software	515,000
<b>Value Added</b>	2700 Facility Upgrades	300,000
	Rider Amenities/Accessibility	100,000
	DriverMate Paratransit Software	90,000
<b>Expansion</b>	Large Bus Expansion	2,400,000
<b>R&amp;D</b>	YTC Planning	400,000
	Connector Study	400,000
<b>Total</b>		<b>8,425,000</b>



## Evidence

Following are actual expenditures and variances from budget. No cost overruns for capital projects occurred.

### FY2017 Capital Budget and Expenditures

Category	Project	Budget	Expenditure	Variance from Budget	Cost Overruns?	Project Status
State of Good Repair	Large Bus Replacement	2,400,000	2,341,765	(58,235)	No	Complete
	Hybrid Increment	600,000	600,000	-	No	Complete
	Small/Medium Bus Replacement	120,000	125,310	5,310	No	Complete
	Vanpool Vehicles	850,000	146,876	(703,124)	No	Complete, Rem. Funds Reallocated
	Maintenance Components, Tools/Equip.	250,000	-	(250,000)	No	Ongoing
	IT Hardware and Software	515,000	438,603	(76,397)	No	Ongoing
Value Added	2700 Facility Upgrades	300,000	37,701	(262,299)	No	Ongoing
	Rider Amenities/Accessibility	100,000	95,693	(4,307)	No	Complete
	DriverMate Paratransit Software	90,000	-	(90,000)	No	Deferred
Expansion	Large Bus Expansion	2,400,000	2,340,865	(59,135)	No	Complete
R&D	YTC Planning	400,000	-	(400,000)	No	Ongoing
	Connector Study	400,000	-	(400,000)	No	Ongoing
<b>Total</b>		<b>8,425,000</b>	<b>6,126,813</b>	<b>(2,298,187)</b>		

## Conclusion on Compliance

In compliance.

**Executive Limitations Policy 2.5.6.**

~~...the CEO shall not ... Invest or hold operating capital in insecure instruments, including uninsured checking accounts, or bonds less than AA rating at any time, or non interest bearing accounts, except where necessary to facilitate ease in operational transactions.~~

**Current Interpretation & Rationale**

This language has been deleted from Policy 2.5 and included in the new Policy 2.6 Investments. Monitoring report will be presented in March 2018.

**Executive Limitations Policy 2.5.7**

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

**Current Interpretation & Rationale**

I interpret this policy to mean that I must obtain Board approval for contracts with a value greater than \$250,000 that are not specifically listed in the budget document. A list of authorized contracts was included in the FY2018 budget’s appendices on page 46. I can authorize unbudgeted contracts valued at \$250,000 or below without additional approval by the Board.

A prior policy which required contracts over \$100,000 to be sent to the Board for approval was in effect for most of FY2017.

**Evidence**

The following contracts were awarded in FY2017 with a >\$100,000 threshold requiring Board approval:

<b>CONTRACT DESCRIPTION</b>	<b>DATE AWARDED</b>	<b>VENDOR</b>	<b>AWARDED AMOUNT</b>	<b>BOARD APPROVAL OBTAINED</b>
Purchase and Installation of New Engines	10/20/2016	Cummins Bridgeway	\$317,800	Yes
Lift-Equipped Van Purchase	10/20/2016	Mobility Transportation	\$125,310	Yes
Airport Transportation Service (AirRide)	2/16/2017	MI Flyer	Over \$100,000	Yes
Communications and Marketing Services	2/15/2017	Berline	Over \$100,000	Yes
Bus Stop Concrete	6/15/2017	Saladino	Over \$100,000	Yes
YTC Passenger Terminal Needs Assessment	6/15/2017	Wendel Architecture	\$195,000	Yes
Vanpool Services	6/15/2017	Enterprise	Over \$100,000	Yes
Bus Shelters and Benches	6/15/2017	Duo Gard	Over \$100,000	Yes
FlexRide	6/15/2017	Golden Limo/Mode	Over \$100,000	Yes

No unbudgeted contracts greater than \$250,000 were awarded in July through September, FY2017.

**Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.7.1**

*...the CEO shall not ... split purchases or contracts into smaller amounts in order to avoid the above limit.*

### **Current Interpretation & Rationale**

I interpret this policy to mean that the staff and I cannot attempt to avoid the requirements of Policy 2.5.7. Contracts with the same vendor must not be broken into smaller contracts in order to be under the limit set above, for contracts not anticipated in the budget.

### **Evidence**

The Purchasing Manager found no vendors were awarded multiple contracts bringing award totals above the thresholds of policy in FY2017.

### **Conclusion on Compliance**

In compliance.

### Executive Limitations Policy 2.5.8

...the CEO shall not ... Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages.

### Current Interpretation & Rationale

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.

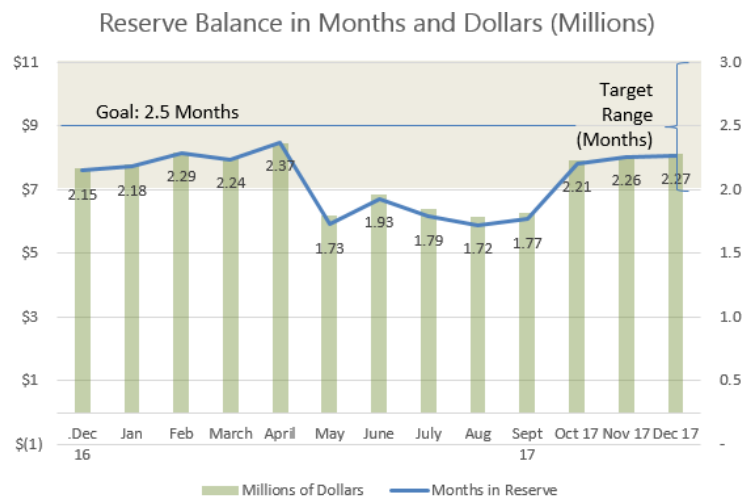
In the recent past, near-term core operating expenses was defined as unrestricted net assets available to support 2.5 months of normal operations. Retained “unrestricted net assets” comprise the “reserve fund.”

Staff and I have since determined that our reserve policy target should remain at 2.5 months of operating expenses available for operations. Recent 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 consistently for a period of one year.

### Evidence

AAATA ended the 2017 fiscal year with a reserve balance of \$6.3 million, or 1.77 months of operating expenses as indicated on the *FY2017 Fourth Quarter Balance Sheet*. Over the last ten years the size of the reserve has declined to a point that it has been consistently below the Board’s policy threshold, due to the rising costs of expansion. This concern was discussed in detail in the *FY2018 Operating and Capital Budget* documentation (see p. 16).

At the end of the first quarter, 2018, the reserve balance was \$8.1 million or 2.27 months of operating expenses, as shown on the *FY2018 First Quarter Balance Sheet*. Over the last 12 months, the reserve balanced has not been consistently at or above the policy target of 2.5 months:



### **Conclusion on Compliance**

The CEO reports non-compliance with this policy. Although a clear standard has been adopted (2.5 months) the reserve fund has not yet been replenished. While significant changes were adopted with the FY2018 budget which will help contribute to the reserve balance, and additional improvements are planned as the FY2019 budget is prepared, it will take time for the reserve balance to consistently reach the policy threshold. We will continue to monitor its progress this year.

### **Executive Limitations Policy 2.5.9**

*...the CEO shall not ... Adjust transit passenger fares or tax rates assessed by the Authority.*

### **Current Interpretation & Rationale**

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.

### **Evidence**

The contract with Enterprise for VanPool includes annual user fee increases which were accepted by the PMER Committee and Board of Directors in June 2017 prior to contract award.

TheRide did not adjust passenger fares or tax rates in FY2017. All current fares are available on the website at <http://www.theride.org/Fares-Passes>.

### **Conclusion on Compliance**

In compliance.

### **Executive Limitations Policy 2.5.10**

*...the CEO shall not ... Acquire, encumber, or dispose of real estate.*

### **Current Interpretation & Rationale**

I understand this policy to mean that staff are prohibited from purchasing or selling land, buildings or any other fixed physical asset without 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.

### **Evidence**

The FY2017 Statements of Net Position (Annual Audit, p. 7, also Note 7, pp. 18-19) demonstrate that there has been no change in the valuation of land and improvements (\$2,270,821), or buildings and improvements (\$28,048,161) for FY2017 compared to FY2016. This is evidence that no real estate was acquired or disposed of in FY2017.

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.

### **Conclusion on Compliance**

In compliance.



**(To be filled in based on Board action after submission)**

**Policy: 2.5 Financial Condition and Activities**

**Date Submitted:** Feb 15, 2018

**Date of Board Response:** TBD

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: