

## MEMORANDUM

To: WCI, Inc. Board of Directors

From: Jean-Yves Benoit, Treasurer

Date: November 7, 2019

Re: Treasurer's Report: Evaluation of Compliance with the WCI, Inc. Funds Management Policy

### **Introduction**

WCI, Inc. maintains a [Funds Management Policy](#) (the "Policy") that establishes requirements for the management of the Corporation's funds. The Policy specifies the Corporation's fund management objectives and defines the duties of the Board, the Finance Committee, the Treasurer, and financial institutions being used to hold the Corporation's assets, the "custodians."

Section 6 of the Policy, "Monitoring," states that:

*At least annually, the Treasurer shall prepare and present to the Board an evaluation of the compliance with this policy, including a summary of the Corporation's financial transactions and holdings, consistency with the required asset allocation, and a statement as to the extent to which each of the policy objectives has been achieved.*

*If directed by the Board, the Audit Committee may undertake an independent evaluation of the compliance with this policy.*

This report to the Board fulfills this reporting responsibility of the Treasurer.

### **Method**

This evaluation covers the period of September 1, 2018 through August 31, 2019.<sup>1</sup> The evaluation was performed by reviewing the financial transactions conducted by the Corporation and the activities of the Finance Committee, Treasurer and Executive Director. The evaluation focused on each of the major elements of the Policy, including:

1. Were the duties carried out as specified in the Policy?
2. Were the funds managed with the standard of care defined in the Policy?
3. Did the asset allocation conform to the requirements of the Policy?
4. Were any prohibited activities conducted?

Finally, this evaluation assesses the extent to which each of the Policy's objectives was achieved.

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<sup>1</sup> Prior Treasurer's evaluations are available on the [Documents Page of WCI, Inc. Website](#) under the heading "Policies of the Corporation."

## Discussion

**Summary of Financial Activities:** The funds of the Corporation are managed by the Executive Director with assistance from WCI, Inc. staff and the accountant according to the procedures defined in the [WCI, Inc. Accounting Policies and Procedures](#). The financial activities are reviewed regularly by the Finance Committee. Annually, the Audit Committee oversees the conduct of the financial audit according to the [Audit Committee Charter](#).

The Board of Directors last amended the asset allocation requirements in the Funds Management Policy at its May 14, 2019 meeting.

During the period examined in this report, the financial activities included the following:

- **Funds Received:** Funds were received from California, Québec, Ontario and Nova Scotia and deposited into WCI, Inc. checking accounts at Bank of the West or Desjardins.
- **Cash and Cash Flow Requirements:** Cash was held in up to two checking accounts and one Enhanced Investment Business Account (similar to a saving account) to ensure that sufficient funds were available to satisfy cash flow requirements in US dollars (USD) and Canadian dollars (CAD).

WCI, Inc. maintained a checking account at Bank of the West. Funds in the Bank of the West checking account are insured by the US Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 USD.

The Desjardins Group is a Québec-based federation of credit unions in which each branch is called a caisse. WCI, Inc. maintained one checking account and one Enhanced Investment Business Account at Caisse Desjardins de l'Administration et des Services publiques located in Québec city. Funds in CAD in those accounts are insured by the Québec Autorité des marchés financiers (AMF) up to \$100,000 CAD by caisse.

From September 1, 2018 to May 14, 2019, to conform to the Policy requirements, the amount of uninsured cash at Bank of the West and the time it is not insured should have been minimized and should not have exceeded \$250,000 USD. During the same period, to conform to the Policy requirements, the amount of uninsured cash at Caisse Desjardins and the time it is not insured should have been minimized and should not have exceeded \$500,000 CAD.

The May 14, 2019 amendment to the Policy authorized the Corporation to hold cash in interest-bearing and non-interest bearing accounts above the amounts insured by the FDIC, Canadian Deposit Insurance Corporation (CDIC) or AMF to meet the cash-flow requirements of the Corporation, allow for funds to clear a temporary hold by a Custodian or to support administrative efficiency. Consistent with the Objectives of the Policy, funds shall be insured to the maximum extent practical.

- US Treasury Securities and Certificates of Deposit (CDs): Most WCI, Inc. funds were held in USD and managed through Bank of the West. US Treasury Securities and CDs were purchased to achieve the objectives of the Funds Management Policy, including cash flow and preservation of principal. Maturities of the instruments were selected to ensure that cash flow requirements were met. Upon maturity, the funds were automatically deposited into the Bank of the West checking account.
- Payments: Payments were made to contractors, suppliers, employees, and tax authorities according to the requirements of each and following appropriate authorization by Corporation officials.

Purchases of US Treasury Securities through a Master Repurchase Agreement with Bank of the West and FDIC-insured CDs were used to manage the balance in the Bank of the West checking account while simultaneously ensuring the availability of funds needed to satisfy cash flow requirements. The Master Repurchase Agreement enables the Corporation to purchase US Treasury Securities in any amount and for any period of time from 1 – 90 days.

FDIC-insured CDs were purchased with various institutions through Bank of the West's Capital Markets Division. The CDs were used to maintain the asset allocation within the limits provided by the Policy (discussed more below). The return from interest paid on CDs is typically higher than the return on US Treasury Securities under the repurchase agreements.

Bank of the West charged wire transfer fees that ranged from \$25.00 USD to \$330 USD for a total of \$2,050.00 USD during the year. Desjardins charged service fees that ranged from \$5.95 CAD to \$14.70 CAD per month for both accounts. The average monthly fee at Desjardins was \$8.19 CAD during the year for a total of \$98.31 CAD.

**Duties Specified in the Policy:** The Policy specifies duties for the Board, the Finance Committee, the Treasurer, and the custodians.

- The Board. It is the Board's responsibility to "...ensure that appropriate policies governing the management of the Corporation's funds are in place and that they are implemented." The Board ensured that appropriate policies are in place by adopting and amending the Policy. It is also required to ensure that the Policy is implemented. At the Annual Board Meeting in October 2018, the Board reviewed and discussed the implementation of the Policy based on the Treasurer's report. It amended the Policy based on the recommendation of the Finance Committee at its meeting in May 2019. Through its discussion and review of this report the Board may assess whether additional steps are required to ensure that the Policy continues to be properly implemented.
- Finance Committee. The Finance Committee is directed as follows: "At least once per year the Finance Committee shall review the Corporation's policies governing the management of the Corporation's funds, and as appropriate recommend to the Board

changes in those policies to better serve the Corporation.” During the period of this evaluation the Finance Committee held twelve conference calls from September 1, 2018 through August 31, 2019. During each call the Finance Committee reviewed the financial status of the Corporation, including cash flow projections and adherence to the Policy. As mentioned previously, based on the review and recommendation of the Finance Committee, the Board approved an amendment to the Funds Management Policy in May 2019.

- **Treasurer.** The Treasurer is directed to do the following under the Policy: “The Treasurer shall prepare and keep current a cash flow projection for the Corporation that at a minimum shows anticipated revenues and expenditures for the coming 18 months. After review and approval by the Finance Committee, the Treasurer shall provide the cash flow projection to the Executive Committee at least quarterly.” On behalf of the Treasurer, the Executive Director maintained the 18-month cash flow projection, presented the projection to the Finance Committee during each of its calls, and provided the cash flow projection to the Executive Committee on a quarterly basis.
- **Custodians.** Bank of the West and Caisse Desjardins were the custodians during the period examined in this report. Accounts were maintained at Bank of the West and Desjardins, and those financial institutions executed all transactions. The Corporate credit card was maintained through Bank of the West. The responsibilities of custodians include: “...executing financial transactions at the direction of duly authorized corporate representatives...[and] provid[ing] complete and accurate monthly and annual reports...” Bank of the West and Desjardins executed transactions at the direction of the Executive Director and Assistant Executive Director, and provided reports which were reviewed by the Executive Director on an ongoing basis and by the accountant on a monthly basis. Additionally, online reports are available for review at any time by the Chair, Treasurer and Secretary of the Board, including all credit card activity.

**Standard of Care:** The Policy specifies the standard of care with which the Corporation’s funds are to be managed:

*Funds shall be managed with prudence consistent with all the objectives of this policy. Care shall be taken to avoid accepting risks, for example by matching maturities of securities to cash flow requirements to avoid being required to sell securities at market rates during unfavorable market conditions.*

The activities conducted during the period examined in this report conform to the standard of care specified in the Policy. Each of the US Treasury Securities and CDs was held to maturity, so that there were no early redemption penalties or risks associated with changing market conditions. The Policy also recognizes the importance of adhering to the Corporation’s [Ethical Guidelines and Conflict of Interest Policy](#) as it relates to funds management activities. No potential or actual conflicts of interest were identified during the period examined.

**Asset Allocation:** The Policy specifies that "...financial assets listed in Table 1 are eligible for managing the Corporation's funds, within the allocation ranges shown..." (see Table 1 and 2, below). During the period examined for this report, the Corporation's financial assets were maintained using instruments listed in Table 1 and 2, effective respectively before and after the May 14, 2019 amendment.

**Table 1: Asset Allocation effective from September 1, 2018 to May 14, 2019**

Asset	Allocation Range
Cash in interest-bearing and non-interest-bearing accounts, in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC), the Canadian Deposit Insurance Corporation (CDIC) or the Autorité des marchés financiers (AMF).	0% to 100%
Cash in interest-bearing and non-interest-bearing accounts that is not insured.	Up to USD \$250,000 Up to CAD \$500,000
Certificates of Deposit in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Canadian Deposit Insurance Corporation (CDIC).	0% to 75%
United States Treasury Securities	0% to 75%
Government of Canada bonds and treasury bills	0% to 75%
General Obligation Bonds Issued by any of the Participating Jurisdictions	0% to 25%

**Table 2: Asset Allocation effective from May 14, 2019 to August 31, 2019**

Asset	Allocation Range
Cash in interest-bearing and non-interest-bearing accounts, in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC), the Canadian Deposit Insurance Corporation (CDIC) or the Autorité des marchés financiers (AMF). The Corporation may hold cash in interest-bearing and non-interest bearing accounts above the amounts insured by the FDIC, CDIC or AMF to meet the cash-flow requirements of the Corporation, allow for funds to clear a temporary hold by a Custodian or to support administrative efficiency. Consistent with the Objectives of the Policy, funds shall be insured to the maximum extent practical.	0% to 100%
Certificates of Deposit in amounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Canadian Deposit Insurance Corporation (CDIC).	0% to 100%
United States Treasury Securities	0% to 100%
Government of Canada bonds and treasury bills	0% to 100%
General Obligation Bonds Issued by any of the Participating Jurisdictions	0% to 25%

During the period examined for this report, the asset allocation, aggregated from the final day in each month, was:

**Table 3: Asset Allocation During the Period Examined for This Report**

Asset	Portion of Assets			Average Time to Maturity
	Average	Minimum	Maximum	
Cash (bank accounts)	11%	7%	15%	(NA)
Certificates of Deposit (FDIC insured)	59%	41%	81%	6 months
US Treasury Securities	30%	8%	52%	(NA)

From September 1, 2018 through August 31, 2019, the balance in the Bank of the West checking account was maintained below \$500,000 USD (at the end of the day) on 356 days and exceeded this threshold, at the end of the day, on seven occasions, all resolved by the next business day (for a total of nine calendar days). Five occasions were due to an overnight hold placed on payments received from California, Ontario and Québec and on two occasions due to an investment coming to maturity that could not be reinvested the same day. On 33 occasions, the checking account balance exceeded \$500,000 USD due to an investment coming to maturity. On 31 occasions, funds were reinvested the same day, and on the two other occasions funds were reinvested the next business day.

During the same period, the cumulative balance of the accounts at Desjardins was maintained below the \$600,000 CAD throughout the year, in compliance of the Policy.

The remaining assets were in the form of US Treasury Securities and CDs. The holdings of US Treasury Securities and CDs remained within the Policy asset allocation limits. During the period covered by this report, the Corporation held 24 CDs. Terms ranged from 1 day to 7 months. Six months was the most common term with an average of 6 months.

**Prohibited Activities:** The Policy specifies that certain activities are prohibited. No prohibited activities were conducted during the period examined for this report.

## **Findings and Recommendations**

During the period examined for this report, the financial assets of the Corporation were generally managed according to the requirements of the Policy. The ability to utilize three types of financial assets (checking account, US Treasury Securities, and CDs) through a single institution (Bank of the West) provided an efficient and transparent mechanism for managing most of the Corporation’s financial assets.

The cash flow projection was found to be an important and useful tool for managing the assets of the Corporation. The regular review by the Finance Committee of the Corporation’s activities, financial position, and cash flow was an important process by which Board members on the Committee were kept informed.

Based on this review, the following are the findings regarding each of the objectives included in the Policy:

1. Funds shall be managed in a manner that complies with all applicable laws.

*All applicable laws have been followed.*

2. Funds shall be managed in a manner that complies with all requirements specified in funding agreements entered into by the Corporation.

*Funds have been managed in a manner that complies with all requirements specified in funding agreements entered into by the Corporation.*

3. Funds shall be managed to support the cash flow requirements of the Corporation as developed by the Treasurer, including expected requirements in Canadian and US dollars.

*An 18-month cash flow analysis was kept current and presented to the Finance Committee on a monthly basis. During the period examined, funds were successfully managed to support the cash flow requirements of the Corporation without exception, in both US and Canadian dollars.*

4. Funds shall be managed to preserve principal to the maximum extent possible.

*Principal was fully preserved in all cases.*

5. Funds shall be managed to achieve a competitive rate of return (net of fees), consistent with the achievement of the other objectives, in particular recognizing the paramount importance of the preservation of principal.

*The rates of return on the US Treasuries, CDs, and insured deposits were consistent with market conditions. While the returns are relatively low, the choice of these instruments is consistent with the objective of preserving principal. The fees incurred during the period examined were service charges, foreign exchange and international and domestic wiring fees at Caisse Desjardins and Bank of the West.*