

MEMORANDUM

To: WCI, Inc. Board of Directors

From: Matt Rodriguez, Treasurer

Date: September 29, 2016

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.¹ 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.

Notable Changes from Last Report

Since the last report from the Treasurer to the Board of Directors, several changes have occurred, and are discussed in more detail in this report. Among them are:

1. WCI, Inc. opened an office in Québec, and opened accounts with a new custodian in the Desjardins Group.
2. WCI, Inc. received contributions from Ontario.
3. The Board of Directors amended the Funds Management Policy at its March 2016 meeting to change the allocation range for cash assets to 0% to 100%.

¹ The WCI, Inc. Funds Management Policy is available at:
[http://wci-inc.org/docs/WCI_Inc_Funds_Management_Policy_Amended20160314%20\(002\).pdf](http://wci-inc.org/docs/WCI_Inc_Funds_Management_Policy_Amended20160314%20(002).pdf).

Method

This evaluation covers the period of November 2015 through August 2016.² 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 focuses 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.

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.

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

- **Funds Received:** Funds received were deposited into WCI, Inc. checking accounts at Bank of the West or Desjardins. Funds were received from California, Québec, and Ontario.
- **Cash and Cash Flow Requirements:** Cash was held in six checking accounts to ensure that sufficient funds were available to satisfy cash flow requirements in US and Canadian dollars.

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 US. Consequently, to conform to the Policy requirements, the Bank of the West checking account balance was to be maintained below this level.

The Desjardins Group is a Québec-based federation of credit unions in which each branch is called a caisse. WCI, Inc. maintained two checking accounts at Caisse

² Prior Treasurer's evaluations are available at <http://wci-inc.org/documents.php> under the heading "Policies of the Corporation."

Desjardins de l'Administration et des Services publics. One checking account at the Caisse de l'Administration et des Services publics held Canadian dollars (CAD) and the other held US dollars (USD). Funds in CAD in each caisse are insured by the Québec Autorité des marchés financiers (AMF) up to \$100,000 CAD. At the end of the reporting period, staff were in the process of opening checking accounts in CAD at Caisse de Québec, Caisse du Plateau Montcalm, and Caisse de Limoilou, and closing the USD account at Caisse de l'Administration et des Services publics. Checking accounts at multiple caisses are required to meet the objectives of the Policy that cash be insured; using multiple caisses through Desjardins Group allows all the accounts to be managed through a single online interface.

- 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.

No fees were charged by Bank of the West for these services. Desjardins charged service fees of \$4.95 CAD to \$12.50 CAD per month per account.

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 November 2015, 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 a Board meeting in March 2016. 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 eight conference calls from November through August. During each call the Finance Committee reviewed the financial status of the Corporation, including adherence to the Policy.
- **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 and presented the projection to the Finance Committee during each of its calls. The Executive Committee did not meet during the period examined in this report.
- **Custodians.** Bank of the West and Caisse Desjardins de l'Administration et des Services publics were the custodians during the period examined in this report. Checking 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, 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 Policy³ 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, below). During the period examined for this report, the Corporation’s financial assets were maintained using instruments listed in Table 1.

Table 1: Asset Allocation

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) or the Canadian Deposit Insurance Corporation (CDIC).	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 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%

In March 2016, the Board of Directors acted on a recommendation by the Executive Director to amend the Funds Management Policy. Until that time, the minimum allocation to cash was 25%. Funding agreements with the jurisdictions with quarterly or annual payments, along with budgets that necessarily include expenses for reserve sales that have not yet occurred, led to a greater ratio of assets to typical monthly cash flow than was first anticipated, and the maximum FDIC insured account per bank was lower than 25% of the Corporation’s assets. Given the experience in managing funds with Treasury Securities and CDs, the Board agreed that the objectives of the Policy could be met with a minimum percentage held in cash determined by the Corporation’s needs rather than by formula.

Asset allocation, aggregated from the final day in each month of the period examined, was:

³ The WCI, Inc. Ethical Guidelines and Conflict of Interest Policy is available at http://wci-inc.org/docs/Conflict_of_Interest_Policy_rev_12-9-13.pdf.

Asset Allocation During the Period Examined for This Report

Asset	Portion of Assets			Average Days to Maturity
	Average	Minimum	Maximum	
Cash (checking account)	10%	5%	15%	(NA)
Certificates of Deposit (FDIC insured)	39%	20%	55%	87
US Treasury Securities	51%	31%	74%	(NA)

From November 1, 2015 through August 31, 2016, the balance in the Bank of the West checking account was maintained below \$250,000 at the end of the day on 279 days and above \$250,000 at the end of the day on 25 days. Maintaining the cash balance in the Bank of the West account below the FDIC insured limit of \$250,000 US resulted in the cash holdings averaging 10% of the Corporation's assets, which fell below the 25% lower limit specified in the Policy until the Policy was amended by the Board of Directors in March 2016.

The balance in the Caisse de l'Administration et des Services publics CAD checking account from the time it was opened on March 1st, 2016 was maintained below \$100,000 CAD at the end of the day until May 17th, 2016, and exceeded that level through the end of the period covered by this report. No parallel to the US Treasury Security Repurchase Agreements is available, and holding a CD in a Canadian bank requires an account with that bank.

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 purchased 15 CDs. Terms ranged from 2 to 7 months. Three months was the most common term. Maturity dates were staggered, resulting in an average number of days to maturity as of the end of each month.

When US Treasury Securities or CDs mature, the funds are automatically placed in the Bank of the West checking account. To keep the Bank of the West checking account balance below \$250,000, US Treasury Securities or CD purchases are executed that same day. On three occasions during this evaluation period, the checking account balance exceeded \$250,000 for a total of 12 nights because the bank put a hold on payments from California, Ontario, and Québec. During the period of the hold, the checking account balance appeared to have a balance that exceeded \$250,000. Once the hold was lifted, the US Treasury Securities and CDs were purchased to keep the checking account balance below \$250,000. On four occasions totaling 13 nights, the checking account balance exceeded \$250,000 because Bank of the West did not execute transactions on the days they were requested. The Executive Director has taken steps to improve Bank of the West's performance and has the ability to open an account with a different bank if necessary to maintain compliance with the Policy.

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. Further, there are no fees for any of these services. The ability to manage accounts at multiple Desjardins caisses through a single interface provided a similarly efficient mechanism to manage funds in Québec with its lower insured limit per account. The Treasurer recommends that the Executive Director and Finance Committee carefully monitor Bank of the West's performance in timely execution of transactions and a change in processes or banks if necessary.

The cash flow projection was found to be an important and useful tool for managing the assets. 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.

As noted in the Asset Allocation discussion, the holdings of US Treasury Securities, CDs, and cash in the US were generally within the Policy levels after the Policy was amended by the Board of Directors in March 2016. Holdings of cash in Canada were above the Policy levels until additional checking accounts were opened. Cash in the Canadian accounts was insured by the Québec AMF rather than the CDIC.

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.

Preservation of principle was accomplished. The Corporation's financial assets were fully backed or fully insured by the United States or the Québec Autorité des marchés financiers with exceptions noted above.

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 only fees incurred in during the period examined were monthly service charges at the Desjardins Group checking accounts and foreign exchange charges.