

MEMORANDUM

To: WCI, Inc. Board of Directors

From: Mary Nichols, Treasurer

Date: December 9, 2013

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 the financial institution being used to hold the Corporation's assets (i.e., the "custodian").

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.

Methodology

This evaluation covers the period of December 2012 through November 2013. 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?

¹ The WCI, Inc. Funds Management Policy is available at:
http://www.wci-inc.org/docs/WCI_Inc_Funds_Management_Policy.pdf.

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:** All funds received were deposited into the WCI, Inc. checking account at Bank of the West. Funds were received from California and Québec.
- **Cash flow Requirements:** Funds were maintained in the checking account to ensure that sufficient funds were available to satisfy cash flow requirements. As of January 1, 2013, funds in the checking account were insured by the FDIC for up to \$250,000 (prior to that date, there was no limit on the amount insured). Consequently, to conform to the Policy requirements, the checking account balance was maintained below this level.
- **US Treasury Securities and Certificates of Deposit (CDs):** US Treasury Securities and CDs were purchased in order to keep the checking account balance below \$250,000. Maturities of the instruments were selected to ensure that cash flow requirements were met. Upon maturity, the funds were automatically deposited into the 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.

The purchase of US Treasury Securities through a Master Repurchase Agreement with Bank of the West was the primary tool used to manage the balance in the 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 interest paid on CDs is also higher than the interest paid on US Treasury Securities.

No fees were charged by Bank of the West for these services.

Duties Specified in the Policy: The Policy specifies duties for the Board, the Finance Committee, the Treasurer, and the financial institution being used to hold the Corporation's assets (the "custodian").

- **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 fulfilled its responsibility by adopting the Policy. It is also required to ensure that the Policy is implemented. Through its discussion and review of this report the Board may assess whether additional steps are required to ensure that the Policy is 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, including monthly conference calls from July through November. During each call the Finance Committee reviewed the financial status of the Corporation, including adherence to the Policy. Based on these discussions, the Finance Committee has not identified any changes to the Policy to recommend to the Board.
- **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, and consequently the cash flow projection was not presented to the Executive Committee. However, the cash flow was presented to the Board at its meeting in May 2013.
- **Custodian.** Bank of the West was the sole custodian during the period examined in this report. The checking account was maintained at Bank of the West, and Bank of the West executed all transactions. The Corporate credit card was also maintained through Bank of the West. The responsibilities of the custodian 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 executed transactions at the direction of the 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 Policy² 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 the instruments listed in Table 1:

- Prior to January 1, 2013, all financial assets were maintained in the checking account.
- From January 1, 2013 to May 2, 2013, the balance in the checking account was maintained below \$250,000 and the remaining assets were in the form of US Treasury Securities.
- From May 2, 2013 through November 2013, the balance in the checking account was maintained below \$250,000 and the remaining assets were in the form of both US Treasury Securities and CDs.

As shown in Table 1, the Policy specifies ranges for each of the financial assets. During the period examined for this report, the asset allocation limit of 75% for US Treasury Securities was exceeded during March and April 2013. Following the receipt of a payment of approximately \$1.5 million from Québec, US Treasury Securities were purchased to keep the checking account balance below \$250,000. These US Treasury Securities exceeded 75% of the total financial assets of the Corporation. Starting on May 2, 2013, CDs were purchased as well as US Treasury Securities, keeping the asset allocation within the limits shown in Table 1. During the period examined for this report, all of the Corporation's financial assets were fully backed or fully insured by the United States.

When US Treasury Securities or CDs mature, the funds are automatically placed in the checking account. To keep the checking account balance below \$250,000, US Treasury Securities or CD

² The WCI, Inc. Ethical Guidelines and Conflict of Interest Policy is available at:
http://www.wci-inc.org/docs/2011-11-03_WCI-Inc_Conflict_of_Interest_Policy_Final.pdf.

purchases are executed that same day. The bank put a hold on the payments from Québec and California. 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.

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).	25% 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%

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 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 the Corporation’s financial assets. Further, there are no fees for any of these services. No changes are recommended in these processes.

During March and April 2013, US Treasury Securities exceeded the asset allocation limit of 75% specified in the Policy. With the initiation of CD purchases in May 2013, this situation was remedied.

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. However, it may be noted that the Executive Committee did not meet during the period examined. Consequently, it is recommended that the Board consider whether it wants to be updated directly on the management of the Corporation’s financial assets, for example as was done at the May 2013 Board meeting.

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 U.S. dollars.

An 18-month cash flow analysis was kept current and presented to the Finance Committee on a monthly basis. During 2013, funds were successfully managed to support the cash flow requirements of the corporation without exception. To date, all funds have been held in US dollars.

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

Preservation of principle was accomplished. All of the Corporation's financial assets were fully backed or fully insured by the United States.

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 FDIC 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. No fees for financial management services were incurred in 2013.