

Upper Thames River Conservation Authority Board of Directors'  
Finance and Audit Committee  
Tuesday April 25, 2023 following the Board Meeting

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- 1. Modifications to the Agenda**
- 2. Declaration of Pecuniary Interest**
- 3. Minutes of the Previous Meeting: September 23, 2022**
- 4. Election of Finance and Audit Committee Chair**
- 5. Terms of Reference**
- 6. Finance Update 2023**  
C.Saracino – FIN # 1337
- 7. Closed Session – In Accordance with Section C.13 of the UTRCA Administrative By-Law**
  - 7.1. Financial Information that Belongs to the Authority and has Potential Monetary Value – 2022 Draft Audited Financial Statements and Audit Report Review
  - 7.2. Financial Information that Belongs to the Authority and has Potential Monetary Value – Portfolio Recommendation
- 8. Adjournment**



Tracy Annett, General Manager

# Upper Thames River Conservation Authority

## Finance and Audit Committee Terms of Reference

### **Composition of the Finance and Audit Committee:**

The Committee shall be reaffirmed annually, at the January Board meeting through a voting process. The Audit Committee will be composed of the Chair of the Authority, and two to four other members elected from among the members of the Board. A Committee Chair will be elected during the first meeting of each year. The terms of reference for the Committee shall be reviewed annually by the Board and attached to the Minutes of the meeting at which they are approved or confirmed.

The Committee shall meet at least twice per year, with the first meeting to take place after the Auditors have prepared the Auditors' Report, at such time and place as the Chair of the Committee shall decide.

The Finance and Audit Committee reports to the Board as a whole. It is understood that the Chair of the Finance and Audit Committee and the external auditor will have direct access to one-another at all times, to discuss matters relevant to the audit.

### **Members of the Audit Committee must:**

1. Be impartial, independent and without conflict of interest, which includes not having a business relationship with UTRCA.
2. Have sufficient knowledge and/or experience to understand and interpret financial statements. This knowledge may be gained through training provided by UTRCA after being accepted to the Committee.

### **Responsibilities of the Finance and Audit Committee comprise three key activities:**

#### **I Audit Oversight**

1. To review the audit plan and discuss it with the auditor in advance of each year's audit.
2. To review the audited financial statements of the UTRCA and recommend approval of those statements (or otherwise) to the Board of Directors.
3. To review the results of the external audit and discuss with staff any action required in response to auditor's recommendations.
4. To review the effects of any changes in accounting practices or policies on the financial statements and/or recommend appropriate changes in accounting practices or policies to the Board of Directors. This may include a review of significant accruals, provisions and estimates included in the financial statements.
5. To review the system of Internal Control and the effectiveness of those controls in protecting the assets of the UTRCA and ensuring effective and accurate financial reporting.
6. To review, in consultation with Management and Auditors, any material contingency facing the UTRCA and evaluate the appropriateness of the UTRCA's disclosure of such items.

7. To review any other matter that in its judgement should be taken into account in reaching its recommendation to the remaining Board members concerning the approval of the audited financial statements.
8. To recommend the appointment of Auditors and approval of the audit fee for the upcoming year.
9. To review services provided by the auditor outside of the audit, to ensure that such services are appropriately provided by the firm also acting as auditor.

## **II Investment Advisor Oversight**

1. Select and recommend to the board an investment advisor or firm to assist in managing the long-term portion of the Authority's investment portfolio.
2. Determine the level of risk acceptable and the selection of investments held.
3. Establish a long-term investment strategy for UTRCA which will help meet budgetary needs.
4. Review the performance of such portfolio annually and confirm with the advisor any desired changes or amendments to objectives and constraints.
5. Report to the Board the results of investment management decisions.

## **III Compliance Oversight**

1. Following review, the Committee shall provide a factual certificate of compliance with statutory obligations, remittances and filings to the board at least once each year.

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**To: UTRCA Finance & Audit Committee**  
**From: Christine Saracino**  
**Date: 29 March 2023**  
**Filename: FIN #1337**  
**Agenda #: 6**  
**Subject: Finance Update 2023**

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For Information:

**A. Transactions**

1. In January we transferred ownership of a parcel of land on Wellington Street London to the City for the value of \$23,000, which was devised through a fair market value assessment. It was an urgent request from February 2022 as part of the Rapid Transit project. These lands were from scheme 43 and for municipal infrastructure and utility purposes; the request was filled and completed in January 2023. Unfortunately, the parcel was on the books at a value of \$80,700 when it was originally acquired. This transaction resulted in a loss recorded in 2023 of \$57,700 which will be directed to the lands reserve.
2. In January 2023, we received the final payments of \$175,000 from the National Disaster Mitigation Program (NDMP) for 2019-2020 expenses. These amounts were not paid to us directly through the federal government but passed via MMAH. There was never an acceptable reason provided why the funds took so long to be disbursed from projects completed 3 and 4 years ago.

We currently have another \$200,000 outstanding from MMAH for the most recent intake of the NDMP for expenses incurred in 2021 and 2022.

**B. Investments**

For context, it may be helpful to know that the UTRCA board approved an Investment Policy in 2018 as a guide to decisions related to excess cash holdings. Following a recommendation from RBC Phillips Hager & North (PHN) the UTRCA Investment Policy was revised and approved by the board in November 2021 to allow for inclusion of an “alternative” class of investment holdings. The most recent version of the policy is attached. In addition, we attach a copy of the first full review of the policy from June 2021. The next full review will take place in 2024.

A more recent recommendation from PHN is described in an additional report.

By way of background, we presently hold:

|                     |  |
|---------------------|--|
| \$4,096,000         | TD Bank/TD Securities GICs maturing up to 1 year at rates up to 5.1%   |
| \$2,010,000         | Bank and Trust Co. GICs with Edward Jones laddered in annual increments to 5 years maturity and rates to 4.65% |
| \$2,100,000         | Bell Canada bonds maturing Nov 2023 YTM .95%   |
| \$ 500,000          | CIBC bonds maturing Jan 2024 YTM 5.024%  |
| \$6,654,000         | RBC PHN Portfolio MV 1 Apr 2024 (cost is \$6.34M)  |
| <b>\$15,360,000</b> | <b>Total holdings outside current accounts</b>   |

The total pool of \$15.36M represents the \$7.156M deferred revenues we have not yet booked and almost all of our \$8.844M of organizational reserves.

Prepared by:  
Christine Saracino, CPA, Supervisor Finance

# UTRCA INVESTMENT POLICY

## COMPANY PROFILE

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Corporate Name: Upper Thames River Conservation Authority  
Type of Business: Watershed Management  
Date of Incorporation: 1947  
Jurisdiction of Incorporation (Province): Ontario

Annual Revenue: approx. \$19,000,000  
Fiscal Year End: December 31<sup>st</sup>  
Other Professional Advisors: Christine Saracino, Supervisor of Finance, CPA  
Investment Knowledge of Signing Officers: Moderate

## PURPOSE OF POLICY

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The purpose of the Investment Policy is to establish and define the investment parameters UTRCA Board of Directors wishes to promote. Specifically, the Investment Policy will:

- Identify the investment objectives and constraints of the organization within certain timelines.
- Suggest an appropriate asset mix that is consistent with these investment objectives and constraints.
- Establish an appropriate reporting and review process.

## INVESTMENT OBJECTIVE

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It is an objective of the UTRCA to ensure that funds are available when required and securely invested to provide future benefit to the organization. The board recognizes that there are day-to-day cash requirements which must meet operational needs (i.e. meeting payroll and tax obligations, meeting the needs of vendors) as well as costs which may be fulfilled on a longer time horizon including the maintenance of funds recognized as reserves to the organization. These needs will be met with appropriate cash management procedures developed internally and approved by the General Manager.

Any secondary investment objective will vary dependent on the purpose of the funds in question and will dictate the strategy and specific type of investments purchased. However, in all cases, preservation or protection of capital will be the primary objective.

## Portfolio Structure

| Portfolio Portion   | Minimum and Maximum Holdings in Expected Investments  | Objective  | Discretion  | Governance   | Minimum Expected Returns after fees |
|---|---|--|---|--|-------------------------------------|
| <b>Current Portion</b><br>Overnight to up to 1 year   | .5 to 2 million in CAD and USD current accounts   | Liquidity  | Internal:<br>Supervisor of Finance based on cash flow forecast                | Cash Management procedures   | 0%                                  |
| <b>Mid-term Portion</b><br>Over a year and up to 7 years  | 2 to 3 million in GICs, Treasury Bills or High Interest Savings Accounts  | Income generation<br>Liquidity                   | Internal:<br>Supervisor of Finance in conjunction with GM and approved budget | Cash Management procedures and Quarterly Reports to the Board              | 2%                                  |
| <b>Long-term Portion</b><br>representing reserves and future needs from approximately 5 years onwards | 3 million and more (7 M in reserves and 6.5 M in deferred balances) in a selection of eligible investments outlined below | Growth<br>Liquidity through capital appreciation | External:<br>Selected committee of the Board with an investment firm          | Annual review with investment advisor as to performance against benchmarks | 5%                                  |

## Withdrawals

Discretionary withdrawals from each of the three portions of the total portfolio will be conducted as necessary under governance procedures noted above and to meet the cash needs of the organization.

Withdrawals from the long-term portion of the portfolio are expected to be infrequent as it is the desire of the Board to maintain a long-term investment portfolio in perpetuity to support the continuing financial strength of the organization. Such withdrawals are expected to be planned in advance and can be directed towards specific needs, both operating (ie. strategic directives) and capital.

## Eligible Investments, Allocation and Exposures

UTRCA holdings may include the following asset categories.

| Asset  | Range of Total Portfolio   | Target of Total Portfolio |
|--|--|---------------------------|
| Equities: Publicly traded domestic or foreign equity securities, common and preferred stocks rights, warrants, convertible debentures, American and Global Depository Receipts   | 45%-65%  | 60%                       |
| Fixed Income: Investment grade bonds, high yield or global bonds, debentures (convertible or not), notes or other debt instruments of governments, government agencies or corporations including mortgage or asset-backed securities | 20%-40%  | 25%                       |
| Cash or money market securities issued by governments or corporations, Treasury bills, commercial paper, bankers acceptances and certificates issued by banks, trusts and insurance companies  | 0%-15%   | 0%                        |
| Alternative Investments: for example, Canadian real estate, mortgages and investments which may be typically more complex and less liquid than public bonds or stocks.   | 0%-20%<br>Note that target has to be different from upper/lower bound. | 15%                       |

## RISK TOLERANCE

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There is always some degree of uncertainty (investment risk) concerning the rate of return or growth of assets that may be generated over any future period. Investment risk may be defined as the frequency and magnitude of negative returns over a given period.

The directors' tolerance for risk and volatility is considered to be moderate which implies in any one year period, the organization can tolerate a drop in value of the portfolio of up to 10% before the directors feel distinctly uncomfortable with the investment strategy. This range is a representation of the directors' tolerance for risk and volatility; however, please note that in times of higher volatility in the financial markets the portfolio may experience fluctuations in value that are higher than this range.

Each portion of the total portfolio will be managed to minimize fluctuations in a manner that is consistent with stated objectives over the time horizon. While one portion may incur little risk, another portion may tolerate higher levels of risk.

## CONSTRAINTS

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### Socially Responsible Investing

The directors have indicated that they would like the portfolio's investments to follow a socially responsible investment strategy. A socially responsible investment strategy means investment decisions are not based primarily on financial performance, but also on ethical, social and in particular, environmental considerations.



The directors acknowledge that a socially responsible investment strategy may exclude investment in certain types of businesses or geographic markets, which may impact overall diversification and performance of the portfolio. In addition to incorporating Environmental, Social and Corporate Governance parameters( ESG) across the overall Portfolio, UTRCA has a preference for divesting of fossil fuels within its global equity holdings by excluding issuers that are directly involved in extracting, processing or transporting coal, oil or natural gas (fossil fuels), or issuers included in “The Carbon Underground 200”. Furthermore, UTRCA expects third party managers to exclude, on a best efforts basis, issuers who knowingly engage in child labour practices.

## **REPORTING AND REVIEW PROCESS**

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The Board has accepted the Finance and Audit committee’s recommendation of RBC PH&N Investment Counsel to advise on the investments of the long-term portion of the portfolio. It therefore will be relying on the Finance and Audit Committee to make recommendations for the general management of investments held by the organization.

For the current portion of the portfolio, any amounts varying from the maximum holding will be reported to the General Manager in conjunction with a review of the Cash Management policy.

For the mid-term portion of the portfolio, investment status will be noted on quarterly financial reports to the board and any material changes in holdings also reported then.

For the long-term portion of the portfolio, the advisor is required to meet with the Finance and Audit Committee annually to review the portfolio structure and reconfirm the organization’s objectives. The committee will provide an annual report to the Board for its review of the performance of the portfolio, a summary of the transactions during the period and a recommendation on the continuation of the advisor in its role.

## **POLICY REVIEW**

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The Board recognizes that as the organization grows and circumstances change, this policy may require review. To that end, it intends to revisit the information in this policy no less than every third year to revise and amend the objectives and details outlined here.

## **ACKNOWLEDGEMENT AND AGREEMENT**

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All investment activities will be conducted in accordance with requirements of federal and provincial regulatory bodies, the CFA Institute Code of Ethics and Standards of Professional Conduct. The members of the Board here confirm their agreement with this policy.

### **Revision History:**

First revision, April 2018 – Added minimum returns, ranges for asset allocation, socially responsible investments description

Second revision, November 2021 – Added alternative investment category to include Real Estate as eligible investment

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**To:** Board of Directors  
**From:** Christine Saracino  
**Date:** 15 June 2021  
**Subject:** Investment Policy Review

**Agenda #:** 6.3  
**Filename:** C:\Users\vigliantim\Documents\GroupWise\1180-C.doc

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**For Recommendation:**

**That the UTRCA Board of Directors reconfirms the attached Investment Policy, in place since 2018, for another 3 years.**

**Background Information**

It became clear through 2016 and the start of 2017 that the Authority was in a position to make better use of its cash. Interest rates were low and we did not have a programmed way to maximize returns beyond GICs. Interest earned each year was used to cushion small deficits in Service Cost Centre costs if they occurred.

At the inception of the Finance and Audit Committee, one of the earliest tasks was to review cash management practices. The review gave rise to several things:

- 1) Better understanding of the source of cash and needs for cash at any time,
- 2) The desire to create a pool of capital managed in such a way as to become a perpetual source of value to the organization,
- 3) Recognition of the unfunded status of both restricted and unrestricted UTRCA reserves.

At the same time, staff was beginning to undertake depreciation-inclusive budgeting so that the impact of capital spending on budgets, and more to the point in this discussion, on cash, could be better managed.

**Creating the Investment Policy**

The policy, approved in 2017, then revised and approved by the Board in April 2018, was structured in such a way as to create three pools based on time horizons of when cash might be required.

|   |                |
|---|----------------|
| Current – covering 1 to 2 months operating needs                    | 1 to 2 Million |
| Mid-term – equating to approximately 4 months operating needs       | 2 to 5 Million |
| Long-term – representing reserves, capital or future spending needs | 4 to 6 Million |

It was agreed that the current and mid-term investment needs could continue to be managed in-house with comparatively secure short-term investments such as GICs, term deposits, and good quality bonds which were structured, or laddered, to support the timing of needs. Shorter-term investing would tend to provide lower returns and less risk than longer-term investments.

The Finance and Audit Committee recommend and the Board agreed that long-term portion of the investment program requires active, skilled investment management and governance by the Finance and Audit Committee. A tender was issued and the Authority contracted Phillips Hager & North, a subsidiary of RBC to manage it. PH&N required us to supply them with an Investment Policy Statement (IPS) which is the contract governing their responsibilities, our approved choice of investment holdings, our desired returns and a fee structure, among other terms. We held discussions with them about the type of funds to hold, the degree of responsible, ethical investing desired, and other pertinent points of interest. This part of the overall strategy was approved by the Board in early 2018. The IPS is attached.

### **Performance and Cost of the Policy Implemented**

We generally no longer carry current balances as large as we did, though from time to time we have large single expenditures (i.e. CEWS repayment of \$632K) requiring a significant balance. As a result more resources were put to work generating returns. This has been critical as interest rates have continued to fall.

In 2017, we only held a range of GICs with TD Bank and TD Securities. They generally matured in less than 18 months. Today, in addition to our funds with PH&N, we hold GICs and corporate bonds with TD Bank, TD Securities and Edward Jones Investments; the latter being added as a way to insure some of our investments which are not fully insured through CDIC with TD Bank and TD Securities. These holdings range in maturity between 1 and 5 years.

PH&N periodically buys and sells investments on our behalf within the long-term portion of the policy. We are regularly updated with monthly reports, quarterly reviews and an annual meeting with our investment advisor, Leila Fiouzi. Market insight reports and periodic investment webinars provide additional economic and investment information to us as well. The return since inception of the PH&N holdings currently outperforms the benchmark of 8.2% set for the portfolio.

The Investment Policy Statement for PH&N requires an annual review which was completed by the Finance and Audit Committee in May 2021. It is a balanced style portfolio with 60% in equities and 40% in fixed income funds. It could be considered neither aggressive nor conservative. The Committee determined that the allocation of investments remains sound, the choice of environmentally responsible funds is still valid and that we should continue with PH&N. On a simplified basis, we provided \$5.5M to fund the account and today we have a \$6.6M portfolio after having paid \$89K of fees for its management. The annual returns have exceeded those anticipated in the Investment Policy.

Unlike the short and medium term investments, these returns are not without risk. The downside is the volatility of a market-based portfolio. Consider that the \$1M unrecorded gain is 15% of the value of the portfolio. Should markets fall more than 15% at any time, the \$1M evaporates. Nevertheless, the purpose of the portfolio was to create a perpetual pool of value to serve long-term needs of the organization and to represent both restricted and unrestricted reserves. The long-term perspective needs to be kept in mind.

### **What about the \$1Million change in value?**

When GICs mature, we record the interest earned. When bonds mature, we recognize those earnings at that time, as well as accruing for those interest-bearing investments at each year end. Those earnings are experienced (recognized) and recorded regularly.

For the long-term portfolio however, we have not yet adopted the accounting standard which would allow us to recognize the earnings and changes in the market value of those holdings. At this point in time, that standard is required from fiscal years beginning in 2022. Therefore we currently record only the changes in cost of the PH&N portfolio in our accounts and provide a note as to the market value in our audited statements each year end. Equally, we have not yet withdrawn from that pool and have not actually experienced gains to record. The cost of the PH&N portfolio today – almost \$5.7M - is a combination of our initial \$4M investment, the addition of \$1.5M and dividends which are reinvested, and the fees charged depleting it.

We are preparing to adopt the new standard to recognize gains and losses of the portfolio. We will also be preparing to accommodate this in our budgeting and reporting practices because we could have potentially large swings in asset balances and reported earnings due to fluctuations in investment markets. Less critical is the question of recording gains, but of how to record losses should they occur and how to smooth out potential fluctuations due to losses. Significant losses can derail the best budget.

**Using Investment Earnings**

The short-term and medium-term pools have been placed in secure investment vehicles with known interest rates at the time they are purchased. They represent cash we don’t need on a day to day basis and the earnings on those are predictable in the short-term. In fact, very few short-term holdings have been cashed early for short-term needs and they continue to roll, or be reinvested as each matures. We had no need in 2020 for additional cash due to COVID and the cost cutting measures in place, and we continue to maintain healthy balances in our current account. One could argue that we should divert more cash to long-term, higher return investment vehicles.

However, in 2018 we began to transition short-term funds into the long-term portfolio. Today we have approximately \$1M less in short and medium term funds. In 2019 interest rates began to fall so the known interest revenue now no longer supports day to day operations to the same extent it did in the past. This puts pressure on programs and activity budgets because there is less interest earned to soften the ‘overhead’ costs allocated to programs. In 2021 we are failing to support rising costs of current operations sufficiently with interest earned and this would imply that more short and medium-term GICS should be held. The trade-off would be lower yields now in lieu of potentially higher longer-term yields.

|                                 | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|---------------------------------|-------------|-------------|-------------|-------------|
| Current Account Interest Earned | \$ 33,869   | \$ 35,388   | \$ 48,310   | \$ 25,679   |
| GIC Interest Earned             | \$122,982   | \$153,895   | \$203,816   | \$113,279   |
| Total                           | \$156,851   | \$189,283   | \$252,126   | \$138,958   |

**What is the solution?**

With contrary pressures, it is helpful to return to the original discussion of cash management and investment pools (see the board document from 2018 attached).

At the time the investment policy was devised, we were aware that this situation might occur; increasing costs corresponding to decreasing interest revenue. The policy was written in such a way as to *permit* the long-term portfolio to be used in three possible ways: to supplement operating costs with investment revenue each year, to support capital spending, and to become a perpetual pool of capital, such as an endowment could provide. However, the overriding thought was that it would be a

permanent pool of value and that it should be allowed to grow sufficiently to fully fund our reserves. In due course it could provide a steady stream of income safely maintained at some minimum amount if we continue to fund it periodically.

Secondly, over time, we are also holding larger and larger balances of deferred revenue (see the table below) which is money we’ve received but not been in a position to spend, or need, yet. This is made up in part by capital maintenance levy provided by member municipalities which is to be used for capital spending. It also comprises advances from funders, and it is the revenue we require in future to cover current capital spending – future depreciation. Reserves, both restricted and unrestricted, are the rainy-day value which would be prudent to actually have in cash or easily convertible to cash; deferred balances are actual obligations which must also be fully funded. Not all deferred balances are long-term, but most are. Therefore we need to consider deferred amounts as a kind of ‘up-front reserve’ of defined future need rather than reserves we hold “just in case”.

|                                    | <b>31 Dec 2017</b>  | <b>31 Dec 2020</b>  |
|------------------------------------|---------------------|---------------------|
| Deferred balances                  | \$ 3,663,293        | \$ 6,509,305        |
| Reserves                           | \$ 7,181,187        | \$ 7,160,362        |
| <b>Total requirement long-term</b> | <b>\$10,844,480</b> | <b>\$13,669,667</b> |
| Long-term Portfolio today          | \$ -----            | \$ 5,675,245        |
| Funding Ratio                      | 0%                  | 42%                 |

We have not yet used the long-term portfolio for any purpose except to cover its management fees. If interest rates continue to be stagnant and we are stretched to secure adequate operating funding, it may become necessary to turn at least part of the long-term portfolio into an income stream. The desire to tap into the long-term portfolio for short-term needs, while arguable, at this point would seem to be counterproductive as we have not yet reached the position of having fully funded our long-term needs. Every year that passes makes us more financially resilient.

In addition, we have not addressed what transpires when the portfolio reaches a desired funding ratio or what that ratio should be. It is a question which the Finance and Audit Committee will review if we continue to fund the portfolio. Much deliberation will be required to determine the right funding ratio, or range, at any given time just as it is required to determine what level of reserves is adequate.

**Summary**

It is the writer’s belief that the investment policy approved by the board in 2018 is delivering what it intended to do. We have a significantly stronger balance sheet than we had in 2017 partly due to it.

Recommended by:

Christine Saracino, CPA, MBA  
 Supervisor, Finance & Accounting