

Town of Swanzey, New Hampshire
TRUSTEES OF TRUST FUNDS
Meeting Minutes – October 23, 2014

Note: Draft Minutes are subject to review, correction and approval by the Trustees. Review and approval of Minutes generally takes place at the next regularly scheduled meeting of the Trustees.

CALL TO ORDER: The meeting was called to order by Chairman Ed Morenz at 9:30 a.m. Present were Chair of the Trustees Ed Morenz, Trustee Steven Bittel, Trustee Richard Scaramelli, and Recording Secretary Beverly Bernard.

OTHERS PRESENT: Town Administrator Shane O’Keefe, Superintendent of the North Swanzey Water & Fire Precinct Sylvester Karasinski.

MINUTES:

- Minutes of July 10, 2014 were considered. Scaramelli **moved** to accept the Minutes, seconded by Bittel, and all were in favor. **Motion passed.**

REPORT OF BOOKKEEPER: see addendum with Bookkeeper notes below

Transactions and Balances, Q3 Review – July 1, 2014 through September 30, 2014

- a. **Capital Reserve and Expendable Trusts** were discussed using the Bookkeeper Notes.
 - i. **School District** – MRSD over drew their fund balance for “Before and After School”, which was corrected. Bittel noted returns were low.
 - ii. **Town** – Normal transaction and low returns.
- b. **Cemetery Trust Fund** – was discussed. There were zero transactions, 48% Equity allocation was briefly mentioned. Too much in Money Market Fund balance
 - i. Bittel said he would like to transfer out some money - \$13,500 is now in Money Market Fund. Bittel anticipates December net disbursements of about \$5,000.
 - ii. Bittel and Morenz suggested putting about \$7,000 into the Equity Income Fund from Money Market Fund.

Motion was made by Bittel to move \$7,000 from Money Market Fund to Equity Income Fund. There was a second by Scaramelli. The motion was then amended to \$8,000 by Bittel, second by Scaramelli to concur with that change. All were in favor. **Motion passed.**

Bittel presented a chart comparing Common, Cemetery and NRFs to the S&P Industrial Index for September 30, 2014 versus October 22, 2014. Trustee results outperformed the Index for all Funds, albeit marginally for the equity heavy Common Fund.

- c. **Common Fund** – this fund was deferred to the discussion later on in the meeting.

- d. **Non-Restricted Funds** – were discussed.
 - i. Activity was documented for Whitcomb Hall Fund as well as some scholarship funds. Whitcomb Hall has been significantly drawn down due to continuing rehab work.
 - ii. Issue with Stockwell Scholarship that is overdrawn by \$137.00 and which cannot be easily corrected. Scaramelli suggested examining the testimonial document for direction from the founder of the Scholarship. Discussion was held as to where to get the money to balance the account. There was a discussion regarding Scholarships that were funded but not awarded; Scaramelli noted that in 2012 and 2014 there were no recipients for Claudia Howard Scholarships of \$100 each. The un-awarded money needs to be returned to the Trustees from the school district. Scaramelli said that he intends to review back five years to learn if scholarships were or were not awarded through further discussions with the school district.

Bittel noted that returns were modest at 1.78%, but far better than the 0.20% Capital Reserve returns. Bittel also noted Equity Income Fund is all large cap/high yield investments – with percentage of bonds being 64%. Morenz said he was okay with the large cap at that heavy bond allocation. Morenz said he is not opposed to going longer duration. Discussion occurred regarding short term versus long term bonds. Morenz is comfortable at 6 years duration.

NEW BUSINESS

Legislation permitting cemetery sales to go to the Town

Town Administrator O’Keefe discussed with the Trustees the State of New Hampshire legislation passed in 2014 which allows for an Expendable Trust for money from the sale of cemetery lots. Net effect is the income would come to the funds managed by the Trustees. Discussion was held about how the money flows. Bittel noted that currently the Perpetual Care trusts create many pages of record keeping. Bittel referred to a report that showed only eight burials in 2013 were set up as a Perpetual Care Trust – which was a total of \$800. Cash flow including lot purchase, vault rental, cornerstones, burial fees are taken by the Town as revenue into the General Fund. Only limited Perpetual Care funds go into the Cemetery Trust.

A discussion was held regarding the appropriate wording for a Warrant Article to create the new account if the Trustees choose to do so. O’Keefe had a copy of the Legislation SB 219, which was discussed. Bittel suggested that unless the Town mandates Perpetual Care, there aren’t sufficient funds to warrant a new account. Discussion was held regarding adjusting the requirements for burial. Scaramelli said he would also be interested in an attorney’s opinion to determine what the value of perpetual care is when the Town already maintains the entire cemetery without distinction. It was noted that an Expendable Trust called Cemetery Expansion has been funded in the past. The Trustees considered possible verbiage provided by the Town Administrator for a Warrant Article regarding sale of cemetery lots.

Consideration of Alternate Trustees

A second Warrant Article was considered to add an Alternate to the Trustees of Trust Funds. O'Keefe would propose verbiage. Scaramelli noted that SB 216 already exists for appointment by Selectmen for Alternates and therefore a Warrant Article is unnecessary. Bittel pointed out that some accounts require two Trustees to sign checks. Morenz isn't allowed by his firm to sign checks. The Alternate should be able to vote and sign checks as needed so that there are at least three people who can sign checks. The Trustees will come up with some names to propose to the Board of Selectmen for appointment as Alternate Trustee of Trust Funds.

OPEN DISCUSSION

MRI Audit Findings

Bittel spoke about the auditor MRI finding in regard to "collateral". He said the recommendation by MRI was moot since the Town has no collateral. Scaramelli pointed out that the Sweep Account at Connecticut River Bank could be more closely monitored as recommended by MRI, which means monitoring a group of different banks/consortium. Bittel noted that every institution uses FDIC member banks so therefore there is not a concern since the CEDARS and ICS systems automatically keep the funds at any single institution at balances of less than \$250,000 per account. O'Keefe suggested that the Town might obtain a letter from Connecticut River Bank stating their consortium consists of banks that are all FDIC members. Scaramelli agreed. Bittel suggested that the information might be available on the Connecticut River Bank website pertinent to their specific mandate. Bittel also noted that the Trustees did due diligence when they spent six months choosing a bank.

O'Keefe left the meeting at 10:34 p.m.

Topics to be discussed at next meeting

There was discussion regarding the fiduciary service of Vanguard Institutional Advisory Services (VIAS). Morenz suggested tabling this subject in favor of an extra meeting. The Trustees agreed to table the fiduciary discussion and plan on an additional meeting November 13, 2014 at 9:30 a.m. Scaramelli said he would have a resolution to the school district scholarship issue by that meeting. Bittel said he would provide a 2014 cemetery fund distribution calculation. Scaramelli said he would also once again attempt to obtain some legal commentary regarding Carlton Cy Pres to be included in this discussion. Allocations will also be discussed.

Election of the Chair

Discussion was held regarding how the Chair is selected which is based on seniority service in the third year as a Trustee. Scaramelli said the selection process is based on historical practice. Consideration was given to adding Alternates and how that might impact on Chair selection. The Trustees agreed to table the discussion until such time as an Alternate is appointed.

Meeting Schedule

There was a brief discussion about when meetings are held as mentioned in the Annual Report “Meetings continue on the third Thursday of January, April, July, and October with special meetings are noticed and held as necessary” versus as mentioned on the Town of Swanzey website. The website currently notes that meetings of the Trustees are held on Tuesdays, which is incorrect and needs to be updated to Thursdays. Bittel will distribute a draft of changes.

Annual Report

A brief discussion occurred regarding the 2014 Town Annual Report and preparation for writing the Trustees of Trust Funds page for that report.

Common Fund Review

- a. Bittel referred to the report of the Bookkeeper regarding activity during the quarter.

Motion was made by Bittel to exchange Wellesley Fund for Money Market Fund in the amount \$1,111.74 to correct an automatic re-investment of one income dividend, second by Scaramelli, and all were in favor. **Motion passed.**

- b. Royal Dutch Shell shares were discussed. It was noted that 15% tax is now required to be withheld whether the dividend is taken in cash or script. Bittel said he would like to sell off these shares to be done with cumbersome Income vs. Principal Fund allocations. Bittel noted that fractional shares need to be addressed as the Income Fund holds 131.029 shares. Vanguard will only sell fractional shares if the entire position is liquidated. After discussion it was agreed to sell the next higher number of shares, and Bittel will sort out the entries and transactions needed to adjust Principal and Income accounts for the extra .971 shares sold – an amount of less than \$100.

Motion was made by Bittel to sell off 132 Royal Dutch Shell Income Fund shares, the proceeds to go into the Money Market Fund. There was a second by Scaramelli. All were in favor. **Motion passed.**

- c. Scaramelli said he did a sector allocation review and pointed out investments are underweight in the consumer section; the Town has a 12% allocation as compared to the S&P 500, which is approximately 22%, and is overweight in telecoms. Bittel noted that the market volatility will continue and suggested developing a short list of individual stocks that might be triggered quickly to take advantage of pricing.

Future expenditures planned for the North Swanzey Water and Sewer Precinct

Superintendent for the North Swanzey Water & Fire Precinct Sylvester Karasinki – spoke to the Trustees about future spending of approximately \$123,000 for water and sewer re-construction in connection with the State Route 12 roundabout project that is due to be implemented in 2015.

Motion was made by Morenz to accept the Bookkeeper's Statement of Accounts, the Bookkeeper's Report and Bookkeeper's Notes and to append the Notes to the Minutes. There was a second by Scaramelli. All were in favor. ***Motion passed.***

ADJOURNMENT: Scaramelli **moved** to adjourn, seconded by Bittel. Adjournment occurred at 11:32 a.m.

Next meeting scheduled for 9:30 a.m. at Swanzey Town Hall on November 13, 2014

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Beverly Bernard".

Beverly Bernard, Recording Secretary

BOOKKEEPER'S NOTES – September 30, 2014

[Prepared: 10.14.14]

MRSD CR/ET:

- Activity remained muted with only one transaction during the first three quarters.
- The Before/After School Programs Fund late September overdraft was corrected in early October with the delayed \$175K deposit.
- Returns are modest (~23 bps). Consideration should be given to the Vanguard fiduciary option despite the fact that current market conditions may affect timing. (see NRFs return, below)

TOWN CR/ET:

- Normal activity with ~4 disbursements per quarter. In July the Town deposited their 2014 Warrant Article funds, which relieves it from new December deposit requirements. There will be the usual late year surge in disbursements and exchanges.
- Returns are modest (~21 bps). Again, consideration should be given to the Vanguard fiduciary option.

NON-RESTRICTED FUNDS:

- Please remember that MS-9 Forms for individual fund balances are displayed quarterly. I will consolidate them at year-end.
- Activity was normal compared to last year with the exception of the not handling Old Home Day deposits this year. Top activity was in the Whitcomb Hall, Museum (Hist. Cmte.), Fire Tools and Sciuto accounts. Whitcomb Hall was substantially drawn down during Q3 for on-going repairs.
- We have an issue with the Stockwell Scholarship account being overdrawn by \$137.28, which issue will not be resolve through future earnings as the deficit represents both Income and Principal Funds (which are now combined for NRFs).
 - We need to pursue recovery of unspent MRHS scholarship grants. Perhaps that would provide a source of reimbursement.
- Returns here are greatly improved during to implementation of Vanguard funds. Investment income was 1.78% (over 1.50% greater than CR/ETs returns. At 9/30/14 there was ~\$4K of unrealized gains, principally in the Equity Income Fund. This gain was largely eliminated during the period through October 13th. The post 9/30/14 equity loss was ameliorated by gains in the two bond funds and represents just a little over 1% of market value – very acceptable against broader market losses for the same period.

CEMETERY FUNDS:

- Cemetery funds are inactive until the Q4 when the annual transfer to and from the Town occur. Once Q3 draft statements are approved, I will calculate the Trusts' transfer to the Town based upon lagging annualized September 30th numbers. New trust receipts are transferred in mid December.

BOOKKEEPER'S NOTES – September 30, 2014, Continued

CEMETERY FUNDS, Continued:

- Returns are outperforming 2013. Expected total 2014 investment income should be ~3K higher than 2013, a 75% increase. Q3 had a ~\$9K or 4% increase in value (3% as of 10/13/14).
- Vanguard's statement indicates a 47.6% equity allocation.
- The money market balance appears high by ~\$7K.
- We should prosecute the proposed cemetery accounting warrant article with the Select Board. Scaramelli made a motion to create a dedicated Expendable Trust Fund for Cemetery Maintenance and direct all cemetery lot sales proceeds to be deposited in the Expendable Trust Fund for Cemetery Maintenance and to authorize the Town Administrator to write a warrant article for that purpose

COMMON FUND:

- As with NRFs, the MS-9 Forms for individual fund balances are displayed quarterly.
- Activity has been normal with the exception of a larger than normal Carlton Music Instrument Fund withdrawal. The Carpenter tree harvest receipts ended in Q2 with nearly \$60K of receipts.
- The two Q2 correcting trades were made in early July.
- I continue to carry a \$53.88 difference with Vanguard on DNP's cost, which I will try to resolve at year-end.
- The over-draws of Lloyd and Snow Scholarships are being resolved through investment income and should be fully resolved during Q4.
 - Give the scholarship issues this year, we should discuss the entire issue and consider putting a formal policy in place.
- The September income dividend from the new Wellesley Fund position (our first) was reinvested in the Principal Fund rather than credited to the Income Fund money market account. I have proposed a trade to correct and have corrected Vanguard's instructions.
- RDS.A is again a problem. On 9/25/14 a dividend was received, the 25% Dutch tax withheld, and then it was reinvested. I have a call into Vanguard. We will likely have another dividend in December and need to get the procedure fixed or changed.

- Q3 unrealized appreciation was up 4.63%, although only by 1.56% on 10/13/14 after the market selloff. Annualized income yield appears trending lower by ~\$10K while fund disbursement are running at least \$25K higher.
- Vanguard's statement indicates a 66.9% equity allocation.

GENERAL COMMENTS:

- Follow up on MRI comments re TTF (4/24/14 minutes).
- Follow up on warrant article for TTF alternate member(s).
- Clean up of 6/10/14 minutes posted to website.
- Carlton Cy *Pres* status.