

Swanzy Trustees of Trust Funds Minutes

August 3, 2012

Minutes are not final until reviewed and approved by the Trustees. Review and approval of minutes generally takes place at the next regularly scheduled meeting of the Trustees.

As noticed, Chairman Richard Scaramelli and Trustee Steven Bittel traveled to Concord in Bittel's automobile to attend a meeting with Terry M. Knowles, Assistant Director of the Charitable Trust Unit the New Hampshire Department of Justice, regarding reallocation of Common Fund accounts. The meeting was convened once travel commenced at 8:10 AM. A brief suspension occurred for a medical appointment of Bittel in Keene.

During travel to Concord the trustees discussed current market conditions, including the just released BLS employment report, the upcoming meeting with Ms. Knowles and the possible conflicts with the Town Treasurer opening a sweep account at Connecticut River Bank. It was agreed that Bittel will contact the bank to confirm that controls are in place so that no duplicate investment exceeding \$250,000 would occur and that proper segregation and reporting between Treasurer and Trustee funds be maintained.

At 10:10 AM Scaramelli and Bittel met with Ms. Knowles and reviewed the memorandum approved at the July 31, 2012 Trustees meeting, which was forwarded to her by Scaramelli the preceding day (which memorandum shall be appended to these minutes). Bittel delivered a printed copy of the detailed full reallocation analysis showing all years since inception of the Common Fund and offered to supply an electronic copy of the Excel file.

Ms. Knowles complimented the Trustees on the length and diligence of their analysis and agreed with the revised allocation methods used. Rather than restate the numbers on the 2012, she indicated that amended December 31, 2011 MS-9 and -10 Forms be filed to both the Charitable Trusts Unit and the Department of Revenue Administration, using the numbers enumerated in the aforementioned memorandum. The December 31, 2012 reports would then assume the revised 2011 numbers going forward. She declined to pursue further analysis and/or transmittal of documentation.

Scaramelli then made inquires as to what, if anything, the Charitable Trust Unit knew of the Alex Mason Cemetery Trust. Although her records available during the meeting indicated nothing, Ms. Knowles stated she would look further into the matter. Ms. Knowles suggested that if no estate documentation can be located for the Alex Mason equity position in the Cemetery Account, it would be appropriate to seek the approval of Probate Court for a Petition of Deviation which, if granted, would permit Trustees to liquidate the Chubb shares, and reinvest in a position consistent with current Investment Policy. She cited the instance in which Swanzy Trustees had obtained such a petition in the Frank Snow Sidewalk account in 1991, enabling the purchase of a piece of depreciable equipment (sidewalk plow).

Bittel requested copies of the testator files currently on file with the Charitable Trust Unit. Ms. Knowles agreed to reproduce and send the files to the Trustees at a nominal cost to be paid by the Town. The trustees gratefully accepted.

During the return drive the trustees discussed the effort to standardize filing, archiving and accounting procedures as well as amending the 2011 MS Forms. Bittel and the bookkeeper are to amend the forms, draft a cover letter and submit for trustee approval and execution.

Upon return to Swanzy, by mutual consent the meeting was adjourned at 11:50 AM.

Submitted by Steven Bittel, Trustee

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(MEMORANDUM ATTACHMENT to MINUTES)

TOWN of SWANZEY, TRUSTEES of TRUST FUNDS

COMMON FUND ALLOCATION DISPARITIES

July 31, 2012

This report is intended as both a background review of the issues and a proposed resolution thereto.

BACKGROUND:

The Swanzy Trustees of Trust Funds (Trustees) Common Fund was constituted and established as of January 1, 2004. There was confusion as to both entry valuation of legacy investment positions and Capital Account computations. After several changes, the fund reported legacy investment positions at original, pre-common fund, costs, and Capital Account percentages based upon January 1, 2004 market values.

This confusion continued with the bookkeeper calculating allocations without full trustee understanding. During 2011 the Trustees moved to fully study the matter and resolve any open questions. The review continued into the current year. After determining that (a) there was an allocation issue, and (b) that the issue likely did not result in over expenditure on Income Fund available balances, it was resolved to completely restate balances from inception, an arduous undertaking. That effort is now complete.

ISSUES:

The issues come in two parts:

1. Application of formulas used in allocating income to common trusts; and
2. Derivation of original as well as additional contributions allocation percentages.

Formula Applications:

Income Fund receipts of both Principal Fund and Income Fund Investment Income (ordinary income dividends and interest) were allocated based on a combination of both Principal (based on approximate – see more below – Capital Account percentages) and current Income Fund balances.

Investment income derived from Principal Fund investments should be allocated based only upon Principal Fund Capital Account percentages balances calculated on relative market values at date(s) of each individual account's entry into the Common Fund.

Conversely, investment income derived from Income Fund investments should be allocated based upon relative account balance in only the Income Fund.

The Trustees' immediate concern was the possibility that overstated accumulated Income Fund balances could be, or had been, expended.

Original and Additional Contributions Capital Account Calculations:

There was no definitive documentation of either the original allocation or the three subsequent recalculations upon receipts of additional funds. Minor errors were found in the subsequent Capital Account recalculations,

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but not the original calculation. Overall balances were reconciled to quarterly custodian statements for all periods on timely bases over the nine year period.

ANALYSIS and RESULTS:

The study is now complete and has been tested on the first two quarters of 2012. Rigorous new reconciliation and review procedures have been adopted and are in process of being documented into the Trustee's Internal Control Policy. Reports are being prepared by a new degreed and experienced accountant and directly overseen by a trustee with an extensive CPA, municipal finance and investment background.

To expedite the process calculations were made by quarter-end where balances and results were readily available from bank documents. A more detailed analysis by actual withdrawal date was considered, but at low investment income yields measured over matters of weeks, if not days, the effect was deemed immaterial pending inspections of end results. It also would have greatly added to the already considerable time to complete the analysis with *de minimis* effect. The magnitude of changed results supports this decision.

Following is a summary of restated Income Fund balances at December 31, 2011.

SWANZEY COMMON TRUST FUNDS, DECEMBER 31, 2011						
TESTATOR	FUND	PRINCIPAL	INCOME FUND			
		FUND @Cost	RESTATED	AS FILED	DELTA	PCT. DELTA
BOUVIER	Carpenter Home	\$ 704	\$ 1,313	\$ 1,445	\$ (133)	-9.19%
BROWN	Museum	86,969	49,878	53,811	(3,934)	-7.31%
CARLTON, C.	Aged & Infirmed	7,032	8,054	8,839	(785)	-8.88%
CARLTON, C.	Cmty. House Library	4,217	2,631	2,842	(211)	-7.42%
CARLTON, C.	Mt. Caesar Cem'ty.	14,082	20,043	22,219	(2,177)	-9.80%
CARLTON, C.	Community House	1,406	877	947	(70)	-7.42%
CARPENTER	Carpenter Home	393,101	28,300	25,360	2,940	11.59%
LLOYD	Scholarship	43,268	1,205	823	382	46.48%
CARLTON, M. & S.	Music & Equipment	302,057	20,826	20,956	(130)	-0.62%
READ	Community House	72,022	29,012	28,076	936	3.33%
SNOW	Scholarship	7,028	190	132	58	43.80%
SNOW	Sidewalks	735,457	123,193	117,918	5,276	4.47%
STONE	Lake Pavilion	1,266	2,367	2,606	(239)	-9.19%
WHITCOMB, E.	Carpenter Home	9,312	5,346	5,337	10	0.18%
WHITCOMB, E.	Whitcomb Hall	7,033	9,909	10,877	(968)	-8.90%
WHITCOMB, G.	Carpenter Home	33,305	25,662	25,696	(34)	-0.13%
WHITCOMB, G.	Whitcomb Hall	7,032	9,475	10,395	(920)	-8.85%
		<u>\$ 1,725,291</u>	<u>\$ 338,279</u>	<u>\$ 338,279</u>	<u>\$ 0</u>	

Deviations occur as a result of relative Principal Fund versus Income Fund balances, especially where individual account Principal Fund balances were far larger than Income Fund balance (viz. Snow – Sidewalks and Lloyd), and

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vice versa (viz. all of the Carlton Funds). In fact, the very large Snow – Sidewalks and Carpenter Funds had the largest overall impact on the restatement calculations.

In Summary, only two maximum deviations reach alarming percentage changes, but these two (Lloyd and Snow – Scholarship) are on very low Income Fund balances. Other funds generally fall into the disparate relative Principal/Income ratio observation.

More critically, the Trustees' primary concern of overdrawing an Income Fund account did not occur and appears not close to having occurred. That said, restatement should be made as the problem would exacerbate over time.

The complete restatement Excel file will be provided to the Division of Charitable Trust upon request.

PROPOSED RESOLUTION:

Due to the lack of magnitude of variations, but in the interest of properly stating balances going forward to avoid over expenditure of available Income Fund balances, the Trustees propose that a restatement column be included in the December 31, 2012 MS-9 Form to correct the incorrect balances as of January 1, 2012. The first two quarters of 2012 have been calculated using the corrected balances and allocation ratios.