To: Cemetery Commissioners
From: William Shepeluk, Municipal Manager
Date: February 24, 2017

RE: Cemetery Trust Funds & Distribution Policy

During its budget drafting process for 2017, the commissioners decided to include $15,000 in the contractor's line item to allow for "restoration of lots and stones" in the cemeteries. As the town cemetery commission has spent relatively little on restoration over the years and considering the donations of "trust funds" to the cemetery fund from two associations within the past two and a half years, this seems a reasonable plan. Given the present net position of the cemetery fund, the expenditure of $15,000 "fits" into the budget this year.

As I stated at one of your meetings held last fall, it is important for the cemetery commission to establish a policy for the investment of funds it holds in trust and for the distribution of income and capital appreciation. As important as it is to maintain and potentially even to make improvements to the cemeteries in Waterbury, it is more important to understand and plan for the fact that this obligation will go on into perpetuity.

Before a policy can be adopted directing the distribution of income and appreciation gained by the fund, it is necessary to know the value of the trust. To that end, the commissioners must establish the corpus of the donations that were made to the cemetery fund by the Waterbury Center Cemetery Association and the Waterbury Cemetery Association since 2014. I suggest the value below which the commissioners will not let the fund fall, while still taking income from it, be established as $425,000.

Here is my rationale for that: In August of 2014, the Waterbury Center Cemetery Association, upon its dissolution, turned over to the town cash and money market funds valued at $101,846.52. That money was invested and is held at Edward Jones. Its value grew to $107,666.35 by the end of August 2016 when donations of trust funds from the Waterbury Cemetery Association began to be received by the town. As nothing had been withdrawn from the original investment of $101,846.52 made by the Waterbury Center Cemetery Association since its receipt in 2014, the corpus value of that donation should be established as $107,666.35.

Between August and the end of October 2016, the Waterbury Cemetery Association, upon its dissolution, had transferred to the town its trust funds valued at $317,190.49. Most of that portfolio was already invested in mutual funds when it came into the town's possession and the value of the donated funds has fluctuated up and down with the market right from the beginning. It is therefore easiest to establish a value for the total corpus as the sum of $107,666.52 and $317,190.49, which totals $424,856.84. As there has been significant appreciation since October, I recommend the commissioners vote to establish the corpus value of the trust at $425,000 as of January 1, 2017.

On January 1, 2017, the fund balance of the Cemetery Fund was $484,187.43. If the commissioners agree with my recommendation to establish a restricted fund balance by setting the value of "funds held in trust" at $425,000, it will mean there was an unrestricted fund balance of $59,187.43 in the fund on that date. The unrestricted fund balance along with other cemetery revenues, including, to a degree, revenues generated by the trust fund investments can be used to maintain and improve the cemetery. However, if the unrestricted fund balance as well as all other revenues are used completely each year, the investment portfolio will not grow and indeed the fund balance of the Cemetery Fund will remain stagnant and all $425,000 available will be restricted. This is why a policy for the distribution of revenues generated, by the trust specifically, and investments in general is essential.

I recommend the commissioners adopt the following as the investment policy for the Cemetery Fund:

## Investment Policy: Cemetery Fund

All financial assets and liabilities of the Town of Waterbury that pertain to the operation and maintenance of Waterbury's town owned cemeteries shall be listed in the Cemetery Fund of the Town of Waterbury. A balance sheet, an income and expense report and other financial statements will be kept to record the assets, liabilities, revenues, expenses and the net position of the fund, including restricted and unrestricted fund balances.

All revenues, including, transfers of property taxes, donations, interest and appreciation on investments, as well as proceeds from sales of lots, grave openings, vault rentals and other revenues generated by normal operations of the cemetery shall be deposited into the Cemetery Fund. Whenever practicable, bills generated by the town's finance department should be issued for the sale of lots or other cemetery services to avoid cash transactions. If sales of lots or other cemetery services are carried out completely by a cemetery commissioner or municipal employee, proper documentation including a copy of a receipt or a copy of a deed or its substitute shall be delivered to the town treasurer with the associated cash to allow for proper documentation of the cash receipt.

By adoption of this policy the commissioners establish as of January 1, 2017 that $425,000 shall be considered the corpus of the "funds held in trust" that were donated to the town between August 2014 and October 2016. If the value of the Cemetery Fund drops to $425,000 or below, the commissioners agree that only essential expenditures shall be made from the fund to sustain the minimum level of service necessary to operate a cemetery.

If "donations in trust" are made in the future to the town's Cemetery Fund, the commissioners, after determining the purpose of the donation shall, when appropriate, increase the established corpus value of the "funds held in trust". In addition, from time to time and if the value of the fund increases significantly from capital appreciation of invested assets, the commissioners may establish a new and higher corpus value for the "funds held in trust". The commissioners may not lower the corpus value of the "funds held in trust" below that which is established upon adoption of this policy.

Cash, cash equivalents, fixed income assets, securities, and all other assets listed on the balance sheet of the Cemetery Fund are subject to this investment policy.

1. Allowable Asset Classes
    - Cash and cash equivalents denominated in U.S. dollars.
    - Fixed income securities issued by the U.S. government, U.S. government agencies, or political subdivisions of the United States of America.
    - Fixed income securities issued by U.S. or foreign companies.
    - Common equity securities of U.S. and foreign companies may be purchased as mutual funds or unit trusts.
    - Common equity securities of U.S. and foreign companies, but only when explicitly approved by the Cemetery Commissioners and Select Board
    - Preferred equity securities of U.S. companies may be purchased as mutual funds or unit trusts. Purchases of preferred equity shares of individual companies or corporations are specifically prohibited.
    - Fixed income securities issued by non-U.S. governments and non-U.S. government agencies.
    - U.S. Real Estate Investment Trusts (REITs).
    - Mortgage backed securities.

2. Time Horizon-In Perpetuity

3. Risk Tolerance-Moderate to Moderately Aggressive
    a. All cash or cash equivalents shall, when possible, be insured or properly collateralized.
    b. When purchased, fixed income securities shall be rated at least Baa3 by Moody or BBB- by Standard & Poor or Fitch. These ratings and those higher, are considered to be "investment grade" ratings. If the rating of a fixed income security within the portfolio falls below investment grade, the Treasurer and Select Board shall be notified. The "Prudent Person" approach shall be used to sell the security when appropriate. However, the Treasurer and Select Board, by unanimous vote, may agree to keep that security in the portfolio, if that is deemed to be in the interest of the public.
    c. The maximum maturity of any single issue fixed income security shall not exceed 30 years unless there is a put option within 10 years.
    d. The average duration of the fixed income portfolio shall not exceed 20 years.
    e. Up to seventy percent (70%) of the fund may be invested in common equity securities,
    as mutual funds or individual issues. Re-balancing must occur at least once a year.
    f. No more than 20 percent of the portfolio of common equity securities may be invested in one mutual fund.
    g. Century Bonds or other fixed income securities with a maturity date in excess of 30 years may be purchased with explicit approval of the Cemetery Commissioners.

## Specific Limitations for Cemetery Fund

- On average cash holdings shall be no greater than 25 percent of the invested portfolio.
- Futures, options, warrants, and other derivative instruments are prohibited.
- Non-U.S. dollar denominated securities are prohibited.

- Commodities are prohibited.
- Convertible bonds are prohibited.
- Margin purchases or other use of lending or borrowings of money are prohibited
- Direct loans or extension of credit to any interested party, except to the Town or Village of Waterbury are prohibited.
- Regarding lending of funds, only loans in anticipation of taxes or other revenues are permitted and may be made to the Town or Village of Waterbury if authorized by the Town Treasurer.
- No more than 20 percent of the total market value of all investments (measured at the time of the purchase) shall be invested in debt obligations of any one fixed income issuer, except for securities issued or guaranteed by the United States Government or its agencies, which may be held without limitation.
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## Use or Distribution of Income or Capital Appreciation

As stated above, the corpus or starting principal value of this fund is $425,000. If the total value of the fund drops to $425,000 or below, no spending from the fund shall be allowed except to sustain the minimum level of service necessary to operate the cemeteries.

To allow for growth in the value of the Cemetery Fund over time, the Cemetery Commissioners acknowledge and agree that it is imperative that some percentage of income and appreciation of value of the invested funds must be retained by the fund. Understanding that the corpus of the "funds held in trust" is $425,000, the commissioners agree that operating surpluses may be invested, as well. Pertaining to distribution of any invested funds the commissioners agree to measure gains or losses of all invested funds by subtracting the total value of investments as of January 1st each year from the total value of the fund as of December 31st in the same year, except that additional deposits into the investment portfolio will be discounted from the equation. Total value will include, interest income, dividends, capital gains, as well as realized and unrealized gains and losses in the fund. This will insure ease of accounting and will allow for reasonable growth of the portfolio over time.

After considering the year end value of the invested funds against the value of the invested funds at the beginning of the year, the commissioners will apply this procedure to determine how much money may be distributed from the investment portfolio to be used to fund expenditures in the operating budget:

- Distributions of funds based on appreciation of total value in one year shall be made in the following fiscal year at the direction of the commissioners.
- If there is a loss in the investment portfolio in a given year, no distribution of funds shall be made from the investment portfolio.
- If gains are greater than zero percent (0%) and are less than or equal to three-percent (3%), no distribution of funds shall be made from the investment portfolio.

- Gains greater than three percent (3%) and less than or equal to eight percent (8%), may be distributed from the investment portfolio to be used in the next year's operating budget.
- Forty percent (40%) of gains above eight percent (8%) may be distributed from the investment portfolio to be used in the next year's operating budget.

**The Investment Policy and the Use or Distribution of Income or Capital Appreciation Policy, both written above, were been adopted by a vote of the Waterbury Cemetery Commissioners on March 4, 2017.**

By way of example, consider the following scenario and its resulting distribution from the investment portfolio:

- Ending Value on December 31: $477,740
- Beginning Value on January 1 : $426,555
- Total gain in that year: $ 51,185 = 12%

- 3% = $12,797 (426,555 *.03). This amount stays in the fund
- Next 5% = 21,328 (from 3% to 8%) may be transferred to operating fund
- The next 4% = $17,060 (from 8% to 12%) gets split 60% - 40%. The sixty percent ($10,236) stays in the investment portfolio and the forty percent ($6,824) may be transferred to support the operating budget.

In the end the formula allows the 12% gain or the $51,185 to be split and distributed as follows:

| | | |
|---|---|---|
| Amount that stays in fund: | $426,555 | (Beginning Balance) |
| plus | $ 12,797 | (First 3% of gain) |
| plus | $ 10,236 | (60% of gain above 8%) |
| | $449,588 | (Ending value of investment portfolio that stays invested) |

Amount that may be distributed:

| | | |
|---|---|---|
| | $ 21,328 | (3% - 8% of gain) |
| plus | $ 6,824 | (40% of gain above 8%) |
| | $ 28,152 | (Total value of investment gain that may be distributed) |

While this distribution formula will allow the commissioners to know how much money can be moved into the operating budget in any year, the commissioners should evaluate the needs in the cemeteries and transfer only the amount necessary to insure the needs are met. In other words, if there is a sufficient cash balance in the Cemetery Fund to meet the operational needs of the cemeteries without making a full transfer from the investment portfolio, the commissioners should consider transferring a lesser amount or even forgoing a transfer completely.

If over the course of time the investment portfolio increases substantially such that it generates sufficient investment revenue to the operating fund allowing less reliance on other operating revenues, the commissioners should give deference to the tax payers, reducing reliance on property tax transfers before deciding to lower or hold rates stable for lot sales, grave openings and other operational services.

The examples of distributions from the investment portfolio and the hypothetical statements that follow the examples are not to be considered part of this policy, but should be used to inform the discussion by future commissioners when opportunity presents itself.

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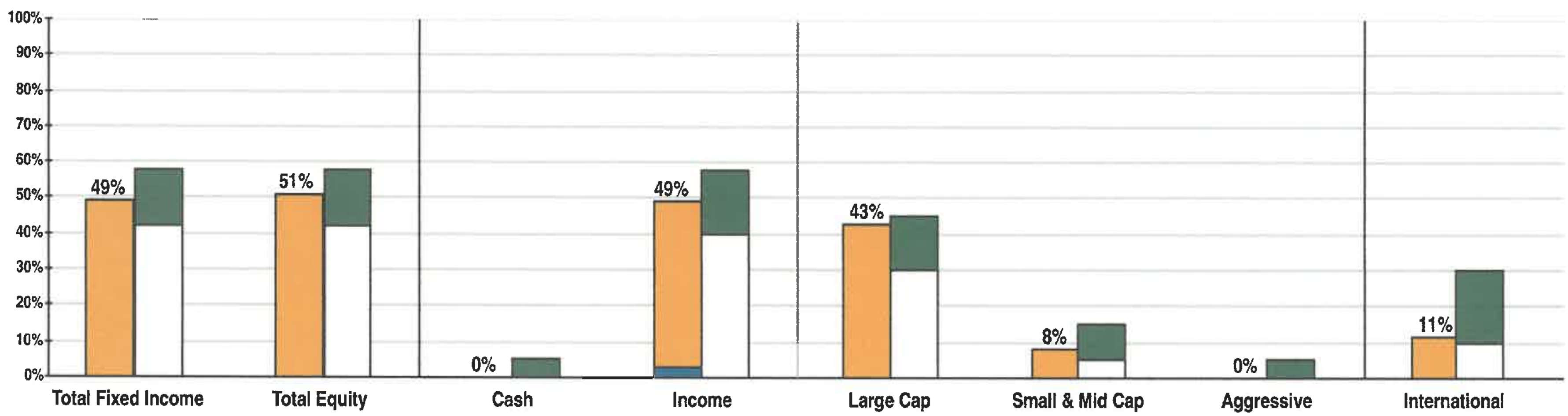
# Diversification by Investment Category

**Portfolio Objective: Balanced Growth And Income**

Bruce K Walbridge
Financial Advisor

**Prepared for: TOWN OF Wtr CEMETERY**
**Account Number: 812-14961**

August 3, 2026




| Investment Category | Value | Actual | Suggested Range | Recommended Target |
|---|---|---|---|---|
| **Fixed Income** | | | | |
| Cash | $54 | 0.01% | 0–5% | Middle |
| Income | $241,340 | 49.13% | 40–58% | Low |
| **Total Fixed Income** | $241,394 | 49.14% | 42–58% | Low |
| **Equity** | | | | |
| Large Cap | $209,448 | 42.64% | 30–45% | Middle |
| Small & Mid Cap | $40,348 | 8.21% | 5–15% | High |
| Aggressive | $0 | 0.00% | 0–5% | High |
| **Total Equity** | $249,795 | 50.86% | 42–58% | High |
| **Portfolio total with unsettled trades** | **$491,189** | | | |
| International | $55,767 | 11.35% | 10–30% | Low |
| Aggressive Income (included in Income) | $13,300 | 2.71% | 0–15% | Middle |

The Suggested Range reflects the Edward Jones Investment Policy Committee's recommended weightings for each investment category based on your Portfolio Objective. To take advantage of timely market opportunities and risks, we also recommend specific Targets within those Suggested Ranges.