

Background on Endowment and Reserve Funds

The Library's Endowment was first established through a bequest from the Dustans in the late 1900's. In 2010 the Board also solicited endowment donations to help meet increased operating costs of the new building, raising \$9,803. We believe that the current fund mingles formal Endowment contributions (which the Board is obligated to honor by preserving principal and spending only income), plus some unrestricted funds set aside by the board and significant capital appreciation, particularly under the former management of Marvin Brown. Until such time as we find better historical documentation of the sources of funds, we will consider:

- A. 60% of the current investment fund to be formal **Endowment – \$361,000**.
- B. The remainder of the current investment fund to be a **Reserve Fund**. These funds exceed the original endowment principal and include earnings plus funds without donor restrictions that the Board has set aside at its own discretion over the years.
- C. A separate CD purchased in February 2023 is designated as a **Building Maintenance Reserve Fund – \$40,000**. This fund was from an unrestricted gift, received in 2021, that the Board decided to set aside for future building maintenance needs. On CD maturity, we propose combining this fund with the main Reserve Fund, to simplify investment management and because special large expenses likely to draw on the Reserve Fund will probably be building related.

Investment Policy

This policy statement provides guidelines for the management and oversight of the Craftsbury Public Library's investment portfolio. Policies contained in this statement are intended to support the long-term financial viability of the Library, while also providing flexibility in the face of changes in capital market conditions and in the financial circumstances of the Library.

1. Role of the Investment Working Group

- A. The Investment Working Group is accountable to the Board of the Craftsbury Public Library for overseeing the investment of all assets in the Library's investment portfolio. This Investment Policy sets forth the investment objectives and distribution policies that govern the activities of the Working Group and any other parties with management responsibility for portfolio assets.
- B. The Investment Working Group will work closely with the Finance and Budget Working Group during the annual budget development process to establish prudent distribution amounts from Endowment and Reserve Funds that meet the requirements of this investment policy.
- C. The Investment Working Group will review this Investment Policy Statement at least once per year. Revisions to this Statement must be approved by the full Board.
- D. The Investment Working Group will report to the Board annually, or as requested, on the performance of the portfolio, investment manager, and adherence to this policy.

2. Investment objectives and spending policy

Endowment

- A. The goal of the Endowment Fund is to provide a relatively predictable, and preferably growing, stream of annual distributions in support of the Library.
- B. The distribution of Endowment earnings and gains in assets will be permitted to the extent that

such distributions do not erode the value of the Endowment's real assets over time. The current minimum principal to be maintained is \$361,000, and this minimum asset value will be updated when we receive gifts specifically dedicated to Endowment.

- C. The Investment Working Group will minimize the variability of annual Endowment distributions by averaging returns (net of management fees) over a period of 5 previous years.
- D. When investment conditions and current Library needs permit, or when the Board initiates a special fund-raising effort, a secondary Endowment objective is to increase the long-term, real value of assets over time. This would support increasing annual distribution amounts to help cover inflationary increases in budget.

Reserve Fund

- A. The Reserve Fund and the Endowment may be managed as a single investment account, or as two separate accounts under the same manager.
- B. General spending guidelines for the Reserve Fund will be the same as for the Endowment (average net income over the previous 5 years). However, since the Reserve Fund lacks restrictions that require maintenance of principal, the Board may spend down this portion of our investment funds when special circumstances arise.
- C. Spending from the Reserve Fund in excess of 5-year average earnings may be proposed by the Finance and Budget Working Group, in consultation with the Investment Working Group, when large one-time expenses are anticipated as part of a proposed budget, as long as the restricted Endowment principal remains intact. The Reserve Fund may also be tapped in case of large unanticipated and unbudgeted mid-year expenses. Either budgeted or unbudgeted withdrawals in excess of normal distribution amounts require full board approval.

Building Maintenance Reserve Fund

- A. We propose folding this Fund into the general Reserve Fund when the current CD matures in August, 2024.

3. Portfolio investment policies

- A. Endowment and Reserve Fund assets will be managed as a balanced portfolio including equities and fixed income investments. Currently assets are approximately two-thirds equities and one-third fixed-income investments. The Investment Working Group will review this strategy and may modify it from time to time.
- B. The Investment Working Group will monitor the portfolio's investment performance and, at a frequency determined by the Working Group, will formally assess performance and management fees to consider whether any changes in management are warranted.