

## INVESTMENT AND SPENDING POLICY

### INTRODUCTION

The Lewes Public Library (“LPL”) is an independent not-for-profit Delaware corporation operated in compliance with §501(c)(3) of the Internal Revenue Code, with management authority vested in its Board of Commissioners (“Board”). The Board is charged with the responsibility to (i) manage LPL’s funds, (ii) maintain a sound spending policy including preserving the purchasing power of its assets, and (iii) promote the purposes of maintaining perpetually a free public library for the benefit of its patrons.

This *Investment and Spending Policy* (“Policy”) encompasses investment management and spending of:

- I. Short Term Funds (generally one year or shorter final maturity), and
- II. Long Term Funds, both Board-Designated and Donor-Restricted.

### I. SHORT TERM FUNDS

#### A. PURPOSES

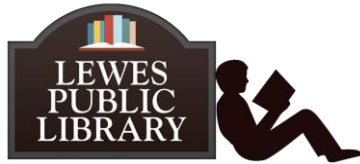
Short-term funds are to provide:

1. Funds for the daily operations of LPL.
2. Operating reserves anticipated for LPL operations within one year.
3. Funding for special projects, e.g., capital expenditures, for which funds have been specifically raised or allocated.

#### B. GENERAL INVESTMENT GUIDELINES

All short-term funds are:

1. Assumed required for expenditure within one year;
2. To be held in cash and marketable cash equivalents of the highest credit quality with final maturities of one year or shorter, including:
  - a. Bank deposits insured by the FDIC.
  - b. Securities issued or fully guaranteed by the U.S. Government or U.S. Government Agencies.
  - c. Securities issued or fully guaranteed by U.S. Government Sponsored Enterprises.
  - d. Money market funds that invest in b and/or c, above.



## C. INVESTMENT OBJECTIVE

The primary objective for management of Short Term Funds is liquidity and protection of principal.

## II. LONG TERM FUNDS

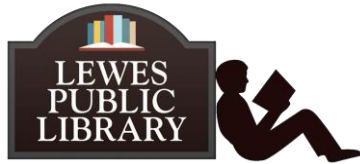
### A. DEFINITIONS AND PURPOSES

Long Term Funds must support the mission and initiatives that forward LPL's tax-exempt purpose, and are subject to this Policy, and include:

1. **Board-Designated Funds** that are unrestricted, i.e., their uses are determined solely by the Board, and include:
  - a. **Operating Reserves** that provide (i) a cushion against financial shortfalls due to unforeseen events, and (ii) a contribution to the annual operating budget of LPL.
  - b. **Capital Reserves** that provide (i) funds for capital projects approved by the Board, and (ii) reserves for future capital repairs, maintenance and replacement.
  - c. **Other Reserves** that may be established by Board approval.
2. **Endowment Fund (called the Lewes Public Library Underwriters Endowment Fund), whereby principal donations are permanently restricted with only fund earnings available for use by the library (see "II. Spending Policy").**
  - a. Fund earnings may provide support for operating, capital or other needs as determined by the Board.
3. **Other Endowment Funds may be established, whereby principal donations may be permanently or temporarily restricted.**
  - a. Endowment donations that are temporarily restricted, meaning the principal donation is not perpetually held by the library and may be used within a specific timeframe and/or for a specific use as specified by the donor, as long as the Board has approved the use and/or the timeframe at the time of the donation.
  - b. Endowment donations may be named by the donor with the approval of the Board.

### B. INVESTMENT OBJECTIVES

Long Term Funds will be invested in both equities and fixed income investments to achieve growth of principal value and income over time. The objectives are to:



1. Maintain the purchasing power of the assets against inflation.
2. Assure that cash withdrawal requirements are met.

**C. GENERAL PROVISIONS**

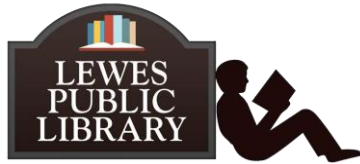
1. All transactions shall be for the benefit of LPL.
2. The Board shall update LPL's Policy on an as-needed basis.
3. The Board shall conduct an annual review of LPL's investments to verify the existence and marketability of the underlying assets or satisfy themselves that such a review has been conducted in connection with an accounting review or independent audit (if any) of LPL's financial statements.
4. Any investment that is not expressly permitted under this Policy must be formally reviewed and approved by the Board.
5. Investments shall be diversified to manage risk and meet the objectives of Section B, above.

**D. DELEGATION OF RESPONSIBILITY; RELIANCE ON EXPERTS AND ADVISORS**

1. The Board has ultimate responsibility for the investment and management of LPL's investments.
2. The Board may delegate authority over LPL's investments to a properly formed and constituted Investment Committee comprised only of Directors.
3. The Board may hire outside experts as investment consultants or investment advisors.
4. The Board also may establish an advisory committee (which may include non-Directors) to provide investment advice to the Board or to the Investment Committee. Advisory committees have no authority to act for the Board, but may monitor compliance with investment policy, recommend changes, and assist the Board or Investment Committee in selecting and retaining investment advisors to execute this Policy.

**E. RESPONSIBILITIES OF THE BOARD**

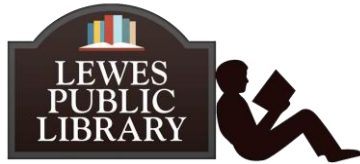
1. The Board is responsible for the oversight of all funds entrusted to its care, including the adoption of policies regarding the investment management of Board-Designated Funds and Donor-Restricted Funds.
2. The Board, or if authority is delegated per Section D above, the Investment Committee, is charged with the responsibility of managing the investments of LPL. The specific responsibilities of the Board or Investment Committee are to:



- a. Communicate LPL's financial needs to the investment advisor(s) on a timely basis.
  - b. Determine LPL's risk tolerance and investment horizon, and communicate these to the appropriate parties.
  - c. Establish investment objectives, policy guidelines and allocations that will direct the investments, to be reviewed by the Board annually.
  - d. Select one or more investment professionals, including investment advisor(s), investment consultant(s) and custodian(s).
  - e. Develop and enact control procedures to evaluate on a regular basis the performance of the investment advisor(s) to assure adherence to this Policy, and to monitor the progress of investment objectives.
3. The Board may terminate a relationship with the investment advisor(s) at any time, subject to the terms of the investment advisory agreement.
  4. The Board may remove assets from the portfolio(s) at any time provided that any contracted asset minimums are met after such withdrawal.
  5. The Board may select investment advisors with differing investment philosophies/approaches for good and substantial reasons, e.g., documented successful track record of sound investment performance for not-for-profit organizations.
  6. The Board shall provide a copy of this Policy to all investment advisors.

#### **F. RESPONSIBILITIES OF INVESTMENT ADVISORS**

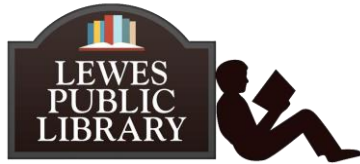
1. Funds management and investment decisions made to carry out this Policy are delegated to appointed investment advisor(s). Investment advisor(s) shall exercise discretion within the limits established herein.
2. Investment advisor(s) shall:
  - a. Act as a Fiduciary to the Funds, and solely in the interest of LPL.
  - b. Demonstrate appropriate knowledge of the Funds' purposes and operations.
  - c. Diversify the investments of any Funds' portfolio(s) to minimize risk of substantial loss.
3. Investment advisor(s) will have full discretion for assets placed in their care while operating in accordance with this Policy. Specific responsibilities include:
  - a. Discretionary investment management, including decisions to buy, sell, or hold Permitted Investments (defined in Section II.G), and to alter allocation within limits established in Section II.I.
  - b. Timely reporting of quarterly investment performance.



- c. Ongoing communication of changes in the economic outlook, investment strategy or other external factors that affect the investment process.
- d. Informing the Board or, if authority is delegated, the Investment Committee, regarding:
  - i. Changes in investment advisor(s)' portfolio management personnel, ownership structure, investment philosophy or other internal issues that might affect the investment process.
  - ii. Material adverse changes in the financial condition of the investment advisor(s).
  - iii. Complaints filed with the SEC or other regulatory body against the investment advisor(s).
  - iv. Other items that might affect the investment process.
4. Voting proxies on behalf of LPL if requested by the Board or, if authority is delegated, the Investment Committee.
5. Administering LPL's investments at appropriate cost for high quality service. These costs include, but are not limited to, management and custodial fees, transaction costs and other administrative costs chargeable to LPL as part of normal investment activities.
6. The investment advisor(s) must obtain Board approval in advance for any costs incurred by investment advisor(s) chargeable to LPL outside normal investment activities, e.g., consulting or legal fees.
7. The investment advisor(s) shall meet with the Board at least annually if requested by the Board, to review the assets under management and discuss investment performance relative to the goals, objectives and guidelines as put forth in this Policy.

#### **G. GENERAL INVESTMENT GUIDELINES**

1. The investment advisor(s) must consider LPL's tax-exempt status when managing LPL's investments.
2. LPL expects to operate into perpetuity. As such, a 5-year minimum investment horizon shall be employed, and interim fluctuations in portfolio value should be viewed with appropriate perspective.
3. Short-term funds shall be maintained in liquid instruments with zero to very low principal risk to keep cash available for distributions (refer to Section I. above).
4. Transactions shall be executed at appropriate cost taking into consideration prevailing market conditions and the services and research provided by the executing broker or dealer.
5. **Permitted Investments:**



- a. Cash and cash equivalents, and marketable equities and fixed income securities; equities and fixed income securities may be individual securities as well as pooled investment vehicles.
- b. All fixed income investments purchased or held shall have an equivalent rating of at least A3/A-, or A2/P2 if commercial paper, and be rated by at least two of the nationally recognized credit rating agencies.
- c. Alternative asset classes, within pooled investment vehicles, are permitted for investment by the Delaware Community Foundation (DCF). The DCF Investment Policy document is available upon request.

**6. Investments managed by investment advisors other than the DCF prohibit the following assets:**

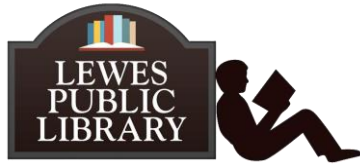
- a. Non-marketable securities, including but not limited to private placements and restricted stock.
- b. Short sales.
- c. Derivatives including but not limited to swaps, forward contracts, futures contracts and options.
- d. Physical commodities.
- e. Leverage transactions of any kind.
- f. Hedge fund investments.
- g. Life insurance and annuity contracts.
- h. Any other investments that do not meet explicitly the requirements of Section G.5 above.

**H. DIVERSIFICATION**

1. LPL will maintain a diversification of investments among asset classes and investment categories at all times (see Section I below).
2. LPL expressly prefers that equity and fixed income investments be in low cost, high quality securities, e.g., mutual funds, ETFs, and index funds. In any case, the total securities position (debt and equity) in any one company shall not exceed 5% of the total portfolio value.
3. The investment portfolio shall be readily transparent at all times with each underlying investment available for review.

**I. ASSET ALLOCATION**

1. Asset class allocation is intended to afford an appropriate approach toward the investment objectives stated in this Policy, including risk management, through basic diversification. The asset class limitations in Section I.2, below, provide a framework through which LPL's investments may be adjusted for economic



and/or investment market conditions while remaining centered on the allocation target deemed appropriate.

## 2. Asset Allocation Limitations

### Domestic Equities

Large Cap 30% - 40%

Small and Mid-Cap 5% - 10%

International Equities 5% - 10%

### Fixed Income

Short Term (1 year or shorter) 5% - 10%

Longer Term 30% - 55%

3. The investment advisor(s) will rebalance the portfolio(s) as necessary to maintain asset allocation limitations.
4. The asset allocation of the DCF may differ from that of other LPL investment advisors. Details may be found in the DCF Investment Policy.

## J. PERFORMANCE

1. Investment performance net of fees shall be measured against comparable indices and reported to the Board no less than annually.
2. Performance shall be evaluated on a three- to five-year basis to allow for market fluctuations and volatility.

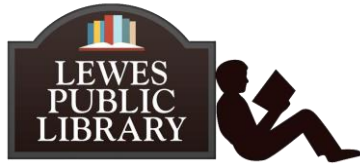
## II. SPENDING POLICY

### A. OVERALL CONSIDERATIONS

Withdrawals may be made with the following considerations:

1. Preserve the long-term purchasing power of the assets.
2. Provide a reasonably stable and predictable revenue stream to support the anticipated uses of Long Term Funds.
3. Maintain adequate liquidity for unexpected needs while protecting investments from unfavorable market conditions.

### B. BOARD-DESIGNATED FUNDS



**1. General**

The Board has the ability to transfer assets it determines necessary among Board-Designated Funds and Short Term Funds.

**2. Operating Reserves**

- a. In establishing the annual contribution to support the LPL operating budget, the Board will analyze the needs of LPL within the context of investment performance. The Board will utilize a smoothing mechanism to help determine the appropriate amount. Two calculations will be made to determine the range of the withdrawal amount, applying a maximum of 5% of the market value to each of the:
  - i. Rolling 12-quarter average balances of the Operating Reserves through the most recent March 31st, and
  - ii. Most recent March 31st balance of the Operating Reserves.
- b. The Board will use these range calculations as a guide, but will have discretion to determine the withdrawal amount based upon needs in any particular year.
- c. Should there be unexpected additional requirements at any time to fund LPL's operations, the Board will determine the optimal way to obtain these monies with the least impact to the value of the Operating Reserves.

**3. Capital Reserves**

The Board would expect to use the Capital Reserves based upon the scheduled lives and anticipated costs to replace LPL's capital assets. However, should there be unexpected timing and/or withdrawal requirements to fund capital expenditures, the Board will determine the optimal way to obtain these monies with the least impact to the value of the Capital Reserves.

**4. Other Reserves**

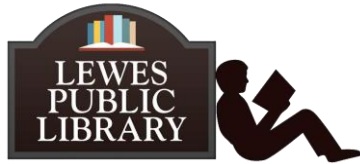
Should the Board create reserves for additional purposes, it will append the Policy as appropriate for the uses and expected withdrawal requirements for those reserves.

**C. DONOR-RESTRICTED FUNDS**

**1. Endowment Fund (Lewes Public Library Underwriters Endowment Fund)**

- a. In establishing the annual withdrawal from a Permanently Restricted Fund, and in keeping with the Spending Policy of the DCF, the Board will utilize a smoothing mechanism to help determine the appropriate amount.





- b. The maximum spending rate is 5.0% of a 12-quarter rolling average of the fund's total market value at the end of each quarter. The formula is applied to the previous 12 quarters at the end of DCF's fiscal year.
- c. If circumstances warrant, the Board, by unanimous vote, has the right to modify the amount of the withdrawal.

**2. Other Endowment Funds**

The Board would expect to withdraw given amounts on a schedule that meets the expressed requirements of the fund. However, should there be unexpected timing and/or withdrawals needed to meet the requirements of the fund, the Board will determine the optimal way to obtain these monies with the least impact to the value of the fund.

**Approved and adopted by the Lewes Public Library Board of Commissioners 06/22/2021**