

*LIBRARY CONNECTION, INC.
RESERVE FUND OBJECTIVES
&
INVESTMENT POLICY STATEMENT*

*“Defining responsible use of reserve funds in relation to
Library Connection’s financial planning”*

LIBRARY CONNECTION INC.

Reserve Fund Objectives & Allocations

The Finance Committee and the Board of Directors have agreed that the following Reserve funds be established:

Operating Reserve - This fund will be maintained annually at six months' worth of budgeted operating expenses. It will be drawn on to stabilize uneven cash flow due to deferred revenue for future programs or prepaid expenses. The fund will prevent LCI from being in a position of having to sell assets for less than their potential worth.

The fund will be rebalanced as revenues are received. When necessary, the Finance Committee will rebalance the fund annually as part of the redistribution of net income.

Technology / Innovation Fund - Intended for planned upgrades to the ILS and other technology enhancements. All dividend and interest income earned on these investments will be transferred into the operating reserve. This naturally replenishes the operating reserve, any excess may be reinvested and/or distributed to other reserve funds based on the finance committee's determination. Deposits into this fund may be annually assessed to the members or transferred from the Contingency Fund.

Contingency Reserve – The fund may also be used to fund opportunities which enhance and promote the mission and growth of Library Connection. This fund underwrites new member costs. The investment income generated from this fund may be used as an alternate income source for continuing operations and capital expenditures, thus stabilizing the need for future special assessments. In addition, this fund maintains financial stability of the organization, and may be used to supplement the cash reserve fund if needed during times of distress. The primary objective of this fund is to contribute to the current income and capital growth over time.

Transit Reserve Fund - Intended for unbudgeted cost relating to Delivery and pick of library materials that are a result of the reduction of items transported by c-car service. Deposits into this fund may be annually assessed to the members or transferred from the Contingency Fund.

Maintaining Fund Balances

<i>Investment Portfolio</i>	<i>Percentage</i>	<i>\$ Allocation</i>
<i>Transit Reserve Fund</i>	<i>8.18%</i>	<i>173,574</i>
<i>Operating Reserve</i>	<i>29.22%</i>	<i>620,391</i>
<i>Technology / Innovation Fund</i>	<i>33.33%</i>	<i>643,988</i>
<i>Contingency Reserve</i>	<i>36.27%</i>	<i>685,256</i>

Illustration of fund balances as of 7/1/2018

At fiscal year end, the Finance Committee reviews the excess revenue/losses and distributes it to the appropriate reserve funds. The market value of each fund after the distribution is included in the notes section of the audit. The audit is reviewed by the Governance Committee and approved by the Board annually

LIBRARY CONNECTION INC.

Investment Policy Statement for Reserve Funds

Library Connections Investment portfolio will include no more than 40% in equities (e.g. stocks), At no time shall the portion of non-investment grade securities (e.g. high yield bonds) exceed 5% of the total portfolio. The remaining portfolio shall be a mix of cash, cash alternatives and fixed income securities.

Guidelines for Each reserve Account are as follows:

Operating Reserve

Risk Tolerance: Conservative

Library Connection Inc. has a low tolerance to declines in the value of this fund and is willing to forgo capital appreciation and growth of income for security.

Time Horizon: Up to five years Asset Allocation: A high percentage (greater than 50%) of this fund will consist of cash alternatives, with a small portion in other investment grade securities.

Technology / Innovation Fund

Risk Tolerance: Moderate

Library Connection Inc. will tolerate a moderate risk, the primary objective of these investment is capital appreciation.

Time Horizon: As needed

Asset Allocation:

This fund would typically consist of both fixed-income securities and equities. The allocation may include a small portion (no more than 25%) of high-yield bonds that are not investment grade securities.

Contingency Reserve

Risk Tolerance: Moderate

Library Connection Inc. will tolerate a moderate risk and is willing to risk losing a portion of investment capital to maximize gains.

Time Horizon: Over five years; the purpose of this fund is to support the mission of Library Connection on an ongoing basis.

Asset Allocation: This fund may consist of mortgage-backed securities, asset-backed securities, exchange traded funds, equities and bonds. The securities are not required to be investment grade (such as high-yield bond fund). Suggested allocation would be 40% fixed income and 60% equities. The allocation may include a portion (no more than 25%) of investments that are not investment grade securities.

Transit Reserve Account

Risk Tolerance: Conservative

Library Connection Inc. has a low tolerance to declines in the value of this fund and is willing to forgo capital appreciation and growth of income for security.

Time Horizon: Up to five years

Asset Allocation: Greater than 20% of this fund will consist of cash and cash alternatives, with a small portion in other investment grade securities.

Glossary

Alternative Cash Investment

Short-term obligations, usually fewer than 90 days, that provide a return in the form of interest payments. Cash investments generally offer a low return compared to other investments. They are also associated with very low levels of risk and are often FDIC-insured. Money market funds and certificates of deposit are examples of cash investments. Cash investments are easily redeemable with small, if any, penalties for withdrawal.

Asset-Backed Security - ABS

A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

Bond

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

The indebted entity (issuer) issues a bond that states the interest rate (coupon) that will be paid and when the loaned funds (bond principal) are to be returned (maturity date). Interest on bonds is usually paid every six months (semi-annually). The main categories of bonds are corporate bonds, municipal bonds, and U.S. Treasury bonds, notes and bills, which are collectively referred to as simply "Treasuries."

Two features of a bond - credit quality and duration - are the principal determinants of a bond's interest rate. Bond maturities range from a 90-day Treasury bill to a 30-year government bond. Corporate and municipals are typically in the three to 10-year range.

Equity

The term's meaning depends very much on the context. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.

Exchange-Traded Fund – ETF

A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

Investment Grade Security

A municipal or corporate bond with a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

Mortgage-Backed Security (MBS)

A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.