GARFIELD COUNTY PUBLIC LIBRARY DISTRICT
INVESTMENT POLICY

I. INTRODUCTION AND SCOPE

Garfield County Public Library District (the District) is a library district operating libraries in each town or city in Garfield County. The boundaries are coterminous with Garfield County. The District serves the Cities of Glenwood Springs and Rifle and the Towns of New Castle, Silt, Parachute and Carbondale. The District is a government entity served by a seven (7) member Board of Trustees. The Board is appointed by the Board of County Commissioners of Garfield County.

The following Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the District's funds. This Investment Policy shall apply to the investment management of all funds which are designated as investment funds with eligible public depositories, and any other funds not specified in agreements which may become available.

This Investment Policy replaces any previous policy or investment procedure of the District.

II. INVESTMENT OBJECTIVES

All funds which are held for future disbursement shall be deposited and invested by the District in accordance with Colorado state statutes and resolutions enacted by the Board of Trustees. The investment and cash management portfolio shall strive to achieve a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements in a manner to accomplish the following objectives:

1. <u>Safety of Funds:</u> Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
   A) Credit Risk: The District will minimize credit risk, the risk of loss due to the failure of the security issuer, by:
      - Limiting investments to those listed in Section VI, Eligible Investments and Transactions.
      - Pre-qualifying the financial institutions, broker/dealers and advisors with which the District does business, and
      - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   B) Interest Rate Risk: The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
      - Structuring the investment portfolio so that securities mature sufficiently close to cash requirements for ongoing operations, thereby minimizing the potential need to sell securities on the open market prior to maturity and
      - Investing operating funds primarily in short- to intermediate-term securities, approved local government investment pools and approved money market mutual funds.

2. Liquidity of Funds: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. To ensure that adequate funds are available to pay the District's projected financial obligations, investments will be purchased or deposits made that reasonably match the anticipated cash disbursements of the District.

   Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets so that the potential for a realized loss, if an early liquidation of security is necessary, will be minimized.

   A core of stable funds available for investing in longer-term securities may be identified through cash flow analysis. Although the market value of these longer-term securities may fluctuate significantly, the fluctuation will not affect the liquidity of the portfolio since they can be held to maturity in all but extreme circumstances.

3. Yield: The District's portfolio shall earn a competitive market rate of return on available funds throughout budgetary and economic cycles. In meeting this objective, investment management personnel will take into account the District's investment risk constraints and cash flow needs.

III. DELEGATION OF AUTHORITY

All investments will be in accordance with Colorado Revised Statute 24-75-601. The Board of Trustees has granted the Executive Director authority for conducting investment transactions. The Executive Director may designate the Assistant Director of Administration or other persons to assist the Executive Director in performing investment management functions. Persons authorized to transact investment business for The District are listed in Annex 1 of this Investment Policy.

The Executive Director may engage the services of outside professionals, subject to the availability of budgeted funds and approval of the Board of Trustees. Such services may include engagement of financial advisors in conjunction with debt issuance, portfolio management support, special legal presentation, third party custodial services, and independent rate services.

The Board of Trustees will periodically review the compliance of the cash and investment management practices of the District with this Investment Policy. The Board of Trustees may elect to appoint an Investment Advisory Committee to monitor the District's Investment Policy.

IV. PRUDENCE

The standard of prudence to be used for managing the District's assets is the "prudent investor" rule, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital." (CRS 15-1-304, Standard of Investments.)

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally riskless and that the investment activities of the District are a matter of public record. Accordingly, the District recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the District.

The District seeks an active, rather than passive, management of its portfolio assets. Assets may be sold at a loss only if the Board of Trustees believes that the sale of the security is in the best long-term interest of the District.

The Executive Director and other authorized persons acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

V. ETHICS AND CONFLICTS OF INTEREST

The Board of Trustees and employees of the District involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. (CRS 24-18-101, et seq, Code of Ethics)

The District adheres to the Government Finance Officers Association's "Code of Professional Ethics," a copy of which is included in Annex IV.

VI. ELIGIBLE INVESTMENTS AND TRANSACTIONS

All investments shall be made in accordance with the Colorado Revised Statutes: CRS Section 11-10-5-101, et seq. Public Deposit Protection Act; CRS Section 11-47-101, et seq. Savings and Loan Association Public Deposit Protection act; CRS Section 24-75-601, et seq. Funds- Legal Investments for Governmental Units; CRS Section 24-75-603, et seq. Depositories; and CRS Section 24-75-701, et seq. Local Governments- Local Government Pooling. Any revisions or extensions of these sections of the CRS will be assumed to be part of this Investment Policy immediately upon being enacted.

The Executive Director and the Board of Trustees have further restricted the investment of District funds to be the following types of securities and transactions:

1. <u>US Treasury Obligations:</u> Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding five years from date of purchase.
2. <u>Federal Instrumentality Securities:</u> Debenture, discount notes, global securities, callable securities, step-up securities and stripped principal or coupons with maturities not exceeding five years from the date of purchase issued by the following only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC). The District will not invest in any of the subordinated debentures issued by the federal instrumentally issuers.
3. <u>Prime Commercial Paper</u> issued on U.S. companies and denominated in U.S. currency with a maturity not exceeding 180 days from the date of purchase and rated in its highest rating category at the time of purchase by one or more nationally recognized organizations which regularly rate such obligations. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a

rating on the issuer of at least A+ by Standard & Poor's or A1 by Moody's. Senior debt is defined as the most senior secured or unsecured debt of the issuer with an original maturity exceeding one year. Furthermore, the issuer's commercial paper program's size shall exceed not $200 million.

4. Eligible Bankers' Acceptances with an original maximum maturity not exceeding 180 days, issued by a state or national bank which has a combined capital and surplus of at least $250 million, the deposits are insured by the Federal Deposit Insurance Corporation (FDIC), and at the time the security is purchased, the long-term debt of the bank or holding company of the bank is rated at least A+ by Standard and Poor's or A1 by Moody's.
5. Local Government Investment Pools authorized under CRS 24-75-701 which 1) are "no-load" (i.e. no commission fees shall be charged on purchase or sales of shares); 2) have an objective of maintaining a constant daily net asset value of $1.00 per share; 3) limit assets of the fund to those securities authorized in this Investment Policy; 4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Law Regulation 2a-7; and 5) have a rating of AAAm by Standard & Poor's or Aaa by Moody's
6. Money Market Mutual Funds registered under the Investment Company Act of 1940 which: 1) are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); 2) have an objective of maintaining a constant daily net asset value of $1.00 per share; 3) limit assets of the fund to those securities authorized in this Investment Policy; 4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7; and 5) have a rating of AAA by Standard & Poor's or Aaa by Moody's.
7. Time Certificates of Deposit or savings accounts in state or national banks or in state or federally charted savings banks, which are state-approved depositories per CRS Section 24-75-603, et seq. (as evidenced by a certificate issued by the State Banking Board), are insured by the FDIC, and have a maximum maturity of 18 months. Certificates of Deposit which exceed the FDIC insured amount, shall be collateralized in accordance with the Colorado Public Deposit Protection Act.
   The District shall purchase Certificates of Deposit only from financial institutions that meet the credit criteria set forth in the section of this Investment Policy, "Selection of Banks and Savings and Loans as Depositories and Providers of General Banking Services."

It is the intent of the Executive Director that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the Executive Director and the Board of Trustees in writing.

VII. INVESTMENT DIVERSIFICATION

It is the intent of the District to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The percentage of diversification will be set by the Board of Trustees every three (3) years. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market and the District's anticipated cash flow needs.

VIII. INVESTMENT MATURITY AND LIQUIDITY

Investments shall be limited to maturities not exceeding five years from the date of purchase unless otherwise approved in writing by the Board of Trustees. The maximum weighted average maturity for the portfolio shall be 24 months. The District shall maintain at least 5% of its total investment portfolio in instruments maturing in 90 days or less. Once the liquidity requirement of 5% has been satisfied, the balance of the District's investable funds will be invested to meet cash flow projections. Core funds (those funds that the District will not need for expected, short-term liabilities) will be identified through cash flow projections so that they can be invested longer term when market conditions are favorable for such strategies.

IX. COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the District. Every effort will be made to get at least three broker/dealers for each transaction and their bid and offering process shall be recorded.

If the District is offered a security for which there is no other readily available competitive offering, then the Executive Director will require documentation for quotations of comparable or alternative securities.

When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

The purchase and sale of all securities shall be on a delivery-versus-payment basis (i.e., moneys will not released by the District's safekeeping bank until securities are received at the Federal Reserve Bank).

X. SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS ACTING AS BROKER/DEALERS

It shall be the policy of the District to purchase securities only from institutions and firms approved by the Board of Trustees. Broker/dealers and other financial institutions shall be recommended by the Executive Director to the Board of Trustees on the basis of their expertise in public cash management and their ability to service the District's account. To be eligible, institutions must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York;
2. Report voluntarily to the Federal Reserve Bank of New York;
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule), or;
4. Be an FDIC member and meet criteria in the Section "Selection of Banks and Savings and Loans as Depositories and Providers of General Banking Services."

Each institution that has been authorized by the Board of Trustees shall be required to submit to the Executive Director information that includes the firm's most recent financial statements.
Annual updates to the broker/dealer information are recommended. The Executive Director shall maintain a file of the most recent broker/dealer information as well as written certifications indicating that each broker/dealer has received a copy of this Investment Policy. A list of approved institutions and firms is included in Annex III to this Investment Policy.

The District may purchase commercial paper from direct issuers even though they are not on the approve broker/dealer list as long as they meet the criteria outlined in item VI.3. of the Eligible Investments and Transactions section of this Investment Policy.

XI. SELECTION OF BANKS AND SAVINGS AND LOANS AS DEPOSITORIES AND PROVIDERS OF GENERAL BANKING SERVICES

Banks and savings and loans shall be approved by written resolution by the Board of Trustees to provide depository and other banking services for the District. To be eligible for authorization, a bank or savings and loan shall be a member of the Federal Deposit Insurance Corporation, shall qualify as a depository of public funds in Colorado as defined in CRS 24-75-603 and shall meet the minimum credit criteria (described below) of credit analysis provided by a commercially available bank rating service. Banks failing to meet the minimum criteria, or in the judgment of the Executive Director no longer offering adequate safety to the District, will be removed from the District's list of authorized banks.

The District shall utilize Highline Banking Data Service to perform credit analysis on banks seeking authorization. The analysis shall include a composite rating, and individual ratings of liquidity, asset quality, profitability and capital adequacy. To be eligible for designation to provide depository and other banking services, a bank shall have an average Highline Banking Data Services Rating of 30 or better on a scale of zero to ninety-nine, ninety-nine being the highest quality for the four most recent reporting quarters.

The Executive Director shall maintain a file of the most recent credit rating analysis reports performed for each approved financial institution by one of the rating firms listed above. Credit analysis shall be performed at least semi-annually on all approved banks and savings and loans. A list of approved banks and savings and loans is included in Annex III.

XII. SAFEKEEPING AND CUSTODY

The Executive Director shall recommend to the Board of Trustees one or more financial institutions to provide safekeeping and custodial services for the District. Custodian banks shall be selected on the basis of their ability to provide service to the District's account and the competitive pricing of their safekeeping related services. To be eligible for designation as the District's safekeeping and custodian bank, the institution shall qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 et seq. and be a Federal Reserve member financial institution. In addition, a financial institution shall have an average Highline Banking Data Services rating of 30 or better on a scale of zero to ninety-nine with ninety-nine being the highest quality for the four most recent reporting quarters.

The Executive Director shall maintain a file of the credit rating analysis reports performed for each approved financial institution. Credit analysis shall be performed semi-annually on all approve depositories. A list of approved custodian banks is included in Annex III.

The purchase and sale of securities shall be settled on a delivery versus payment (DVP) basis (securities will be received by the custodian before funds are released for payment). Ownership of all purchased securities shall be perfected in the name of the District.

Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except Time Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the District will be delivered by either book-entry or physical delivery and will be held in third-party safekeeping by the District approved custodian bank, the custodian bank's Depository Trust Company (DTC) account or a correspondent bank of the custodian.

All Fed wireable book entry securities owned by the District shall be evidenced by a safekeeping receipt of a customer confirmation issued to the District by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the District as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the District as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank's correspondent bank and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the correspondent bank for the District.

The District's custodian will be required to furnish the District with monthly reports of holdings of custodied securities as well as a report of monthly safekeeping activity.

XIII. PERFORMANCE BENCHMARKS

The investment and cash management portfolio shall strive to achieve a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements.

The District shall use, as a goal, a dynamic benchmark rate of return for the District's investment portfolio that corresponds to the yield for the current U.S. Treasury security that matches the weighted average maturity of the portfolio. However, it is intended that the benchmark yield should not be less than the monthly average yield of the Colorado Local Government Liquid Asset Trust (COLOTRUST) measured on an annualized basis. All fees involved with managing the portfolio should be included in the computation of the portfolio's rate of return.

The performance of the investment program will be reviewed on a quarterly basis. Whenever the performance falls below the stated benchmarks for the program, the reasons for the lower performance will be evaluated and if appropriate, adjustments will be made to the investment strategies.

XIV. REPORTING

Accounting and reporting on the District's investment portfolio shall conform to Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB) recommended practices. On a monthly basis, an investment report shall be prepared and submitted to Executive Director, who will provide it to the Board of Trustees in a timely manner, listing the investments held by the District, the current market valuation of the investments and performance results. The report shall include a summary of investment earnings during the period.

Reports prepared by outside advisors shall be sent to the Executive Director.

XV. POLICY REVISIONS

This Investment Policy shall be reviewed each calendar year and may be amended as conditions warrant. Annexes to this Investment Policy may be updated by the Executive Director as necessary, provided the changes in no way affect the substance or intent of this Investment Policy.

Approved by the Board of Trustees on November 7, 2011

ANNEX I

AUTHORIZED PERSONNEL

The following person(s) are authorized to transact investment business and wire funds for investment purposes on behalf of Garfield County Public Library District.

President, Board of Trustees
Treasurer, Board of Trustees
Executive Director
Assistant Director of Administration

Approved by the Board of Trustees on November 7, 2011

ANNEX II

APPROVED BROKER/DEALERS

The following broker/dealers have been approved by Garfield County Public Library District.

Wells Fargo
Stiefel Nicolaus

Approved by the Board of Trustees on November 7, 2011

ANNEX III

APPROVED DEPOSITORIES AND CUSTODIAN BANKS

The following depositories have been approved by Garfield County Public Library District.

Alpine Bank
Wells Fargo
Colo Trust

Approved by the Board of Trustees on November 7, 2011

ANNEX IV

GOVERNMENT FINANCE OFFICERS ASSOCIATION

CODE OF PROFESSIONAL ETHICS

The Government Finance Officers Association of the United States and Canada is a professional organization of public officials united to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies and practices for the public benefit.

To further these objectives, all government finance officers are enjoined to adhere to legal, moral and professional standards of conduct in the fulfillment of their professional responsibilities. Standards of professional conduct as set forth in this code are promulgated in order to enhance the performance of all persons engaged in public finance.

I. Personal Standards

Government finance officers shall demonstrate and be dedicated to the highest ideals of honor and integrity in all public and personal relationships to merit the respect, trust and confidence of governing officials, other public officials, employees and the public.

- They shall devote their time, skills and energies to their office both independently and in cooperation with other professionals.
- They shall abide by approved professional practices and recommended standards.

II. Responsibility as Public Officials

Government finance officers shall recognize and be accountable for their responsibilities as officials in the public sector.

- They shall be sensitive and responsive to the rights of the public and its changing needs.
- They shall strive to provide the highest quality of performance and counsel.
- They shall exercise prudence and integrity in the management of funds in their custody and in all financial transactions.
- They shall uphold both the letter and the spirit of the constitution, legislation and regulations governing their actions and report violations of the law to the appropriate authorities.

III. Professional Development

Government finance officers shall be responsible for maintaining their own competence, for enhancing the competence of their colleagues, and for providing encouragement to those seeking to enter the field of government finance. Finance officers shall promote excellence in the public service.

IV. Professional Integrity- Information

Government finance officers shall demonstrate professional integrity in the issuance and management of information.

- They shall not knowingly sign, subscribe to, or permit the issuance of any statement or report which contains any misstatement or which omits any material fact.
- They shall prepare and present statements and financial information pursuant to applicable law and generally accepted practices and guidelines.
- They shall respect and protect privileged information to which they have access by virtue of their office.
- They shall be sensitive and responsive to inquiries from the public and the media, within the framework of state or local government policy.

V. Professional Integrity- Relationships

Government finance officers shall act with honor, integrity and virtue in all professional relationships.

- They shall exhibit loyalty and trust in the affairs and interests of the government they serve, within the confines of this Code of Ethics.
- They shall not knowingly be a party to or condone any illegal or improper activity.
- They shall respect the rights, responsibilities and integrity of their colleagues and other public officials with whom they work and associate.
- They shall manage all matters of personnel within the scope of their authority so that fairness and impartiality govern their decisions.
- They shall promote equal employment opportunities and, in doing so, oppose any discrimination, harassment or other unfair practices.

VI. Conflict of Interest

Government finance officers shall actively avoid the appearance of or the fact of conflicting interest.

- They shall discharge their duties without favor and shall refrain from engaging in any outside matters of financial or personal interest incompatible with the impartial and objective performance of their duties.
- They shall not, directly or indirectly, seek or accept personal gain which would influence, or appear to influence, the conduct of their official duties.
- They shall not use public property or resources for personal or political gain.

GLOSSARY OF TERMS

Bankers' Acceptances

A bankers' acceptance (BA) can be defined as a time draft drawn on and accepted by a bank to pay a specified amount of money on a specified date. The draft is a primary and unconditional liability of the accepting bank. Bankers' acceptances typically are created for international trade transactions.

Commercial Paper

Commercial Paper (CP) can be defined as a short-term unsecured promissory note issued for a specified dollar amount with a maturity that can be tailored to meet an investor's needs. Notes have maximum maturities of 270 days, with the majority of CP being issued in the 30-50 day range. Most CP is sold at a discount from face value although some can be interest bearing.

Federal Farm Credit Bank (FFCP)

The FFCP is a network of cooperatively owned lending institutions that provide credit services to farmers and farm-affiliated businesses. The Farm Credit Banks collectively issue consolidated system-wide discount notes, debentures and medium term notes. These securities do not carry direct U.S. government guarantees.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

FHLMC is a government-chartered corporation established in 1970 to help maintain the availability of mortgage credit for residential housing. FHLMC buys qualified mortgage loans, and distributes the securities through the dealer community. FHLMC also issue discount notes, debentures and medium term notes that finance the purchase of the mortgages. These securities do not carry direct U.S. guarantees.

FNMA- Federal National Mortgage Association (FNMA or Fannie Mae)

FNMA (Fannie Mae) is a congressionally chartered corporation, chartered in 1938. FNMA purchases conventional mortgages, pools them and sells them as mortgage-backed securities to investors on the open market. FNMA sells debentures, discount notes and medium term notes to investors to finance their purchase of conventional mortgages. These securities do not carry direct U.S. government guarantees.

Money Market Mutual Funds (MMMFs)

MMMFs are an open-ended mutual fund, which invests only in money market investment instruments. MMMFs are sponsored by private companies and are regulated by and must be registered with the SEC. These funds fall under Investment Company Act of 1940 and they must comply with Rule 2a-7, which governs the credit quality, diversification practices and maturities of portfolio securities.

Repurchase Agreement (repo)

A repurchase agreement (repo or RP) is a simultaneous transaction whereby an investor purchases securities (collateral) from a bank or a dealer for cash and the bank or dealer contractually agrees to repurchase the collateral security at the same price (plus interest) at a mutually agreed-upon future date. When the repurchase agreement is executed, the parties agree to a specified interest rate, or repo rate.

Approved by the Board of Trustees on November 7, 2011

Student Loan Marketing Association (Sallie Mae)

Sallie Mae is a federally established corporation established in 1972 to provide financing for the federal Guaranteed Student Loan Program. Sallie Mae regularly enters the credit markets with short-term and non-guaranteed discount notes with maturities under one year and an extensive program of floating-rate notes with various maturities. These securities do not carry direct U.S. government guarantees.

U.S. Treasury Securities (Treasuries)

Treasuries are marketable (negotiable) securities that are issued by the U.S. Treasury and carry the full faith and credit of the U.S. government. They are issued in three types- bills, notes and bonds. Treasury bills have maturities less than one year, do not have a coupon and are purchased as a discount to par value. Treasury notes and bonds have coupons that pay semi-annual interest and have original maturities of two years or greater.

U.S. Treasury STRIPS (Separately, Traded Registered Interest and Principal Securities)

STRIPS are issued by the Treasury as zero-coupon securities and represent the principal or interest payments from selected Treasury notes and bonds. They carry the full faith and credit of the U.S. government.

Approved by the Board of Trustees on November 7, 2011