

**CITY OF CORVALLIS**

*Investment Council*

*Treasury Report*

October 2011

**CITY OF CORVALLIS, OREGON**  
**INVESTMENT COUNCIL**  
*Treasury Report - Table of Contents*

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**DRAFT**  
**CITY OF CORVALLIS**  
**INVESTMENT COUNCIL MEETING**  
**NOVEMBER 3, 2011**  
**MINUTES**

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on November 3, 2011 in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

**ROLL CALL**

Present: Jim Patterson, Nancy Brewer, Janet Chenard, Staci Voight, Scott Fewel, Bill Mercer, Mark O'Brien (Minutes transcribed from recording by Teresa Nix)

Absent: None

**SUMMARY OF DISCUSSION**

Agenda Item	Information Only	Held for Further Review	Recommendations
I. Approval of Minutes from August 3, 2011			Approved
II. Fiscal Year 2011-2012 First Quarter Review	X		
III. Open Discussion	X		
IV. Adjournment – 7:49 a.m.			

**CONTENT OF DISCUSSION**

**I. APPROVAL OF MINUTES**

City Manager Jim Patterson invited any corrections to the minutes from the August 3, 2011 meeting. None being received, the minutes were approved as submitted.

**II. FISCAL YEAR 2011-2012 FIRST QUARTER REVIEW**

Treasury Accountant Staci Voight read the following statement regarding the economic outlook:

In their statement released yesterday, the Federal Open Market Committee announced that there are still significant risks to the economic outlook, including strains in global financial markets, and depressed housing and labor markets. They expect to maintain the Federal Funds Rate at the current target of zero to ¼ percent until the middle of 2013. Short term treasury rates are expected to stay close to zero during this time. The City's Investment Advisor, Davidson Fixed Income Management (DFIM), recommends that the City minimize excess liquidity balances to optimize fully invested portfolios which should help achieve maximum earnings. In this low rate environment, the concentration will be on maintaining

portfolio durations close to the respective benchmark, currently between 1 and 1½ years. Earnings rates of less than 1% should be expected for the upcoming year based on this benchmark.

Ms. Voight presented the First Quarter Portfolio Summary (Attachment A). She said that the total ending balance was down by about \$8.5 million. This is close to the lowest we should see it (other than October's month end report) as property tax dollars begin to come in over the next week or two. The ending cash balance at September 30<sup>th</sup> was down about \$11.5 million from June 30<sup>th</sup>. Investments had a net increase of about \$3 million. Investment activity included two purchases of \$2 million each and one maturity of \$1 million. The Total Portfolio yield had an increase of 6 basis points. The Core Portfolio went down by 10 basis points. The State Pool (LGIP) had no change in yield. The 2-Year Treasury has dropped significantly by 34 basis points over the quarter.

Ms. Voight shared that the City published a Banking Services RFP in August and bids were received from Wells Fargo, Bank of America, and US Bank. The City intends to award the Banking Services contract to Wells Fargo beginning January 1, 2012; staff will be doing the work needed to make that conversion. Ms. Chenard clarified that the City will keep its purchase card business with Bank of America and will move merchant services and general banking to Wells Fargo.

In response to inquiries from the Investment Council, Ms. Brewer explained that the City has had discussions in the past with local community banks, and in fact banked with Citizens' for several years in the late 1990's. However, these smaller banks simply do not have the online tools needed by the City for effective, efficient management of tax and rate payer's funds. Because community banks predominantly serve individuals and small businesses, they may not see it as worthwhile to make the investments needed to get to the level of online detail needed. Credit Unions are not authorized by state law to be a general banking account depository and, in any event have generally not been able to offer money market rates comparable to the State Pool. Councilor O'Brien said that would be a worthwhile message to get to the City Council, and Ms. Brewer agreed to do so as a Council Request.

There were no additional questions or comments.

### **III. OPEN DISCUSSION**

Ms. Brewer reported on discussions about the possibility of refunding some of the City's existing debt. The City has a loan with the Department of Environmental Quality (DEQ) which, if refunded, could save a significant amount. Part of the dilemma in the timing of pursuing this option relates to structuring such a refunding to allow for capacity for new debt and the related borrowing covenants with respect to large upcoming utility projects. Staff is monitoring and will report back. Brief discussion followed.

Mr. Fewel asked what would be done with the property taxes that are expected to be received. Ms. Chenard said staff will be working closely with the Investment Advisor over the next weeks; the money will be deposited in the Pool until/unless an appropriate longer term investment(s) are available.

### **IV. ADJOURNMENT**

The meeting was adjourned at 7:49 a.m.

**City of Corvallis  
Investment Council  
November 3, 2011**

ATTACHMENT A

Quarterly Portfolio Summary for the Quarter Ending 9/30/2011:

	Treasury Report Pg. 15 <u>June 2011</u>	Treasury Report Pg. 5 <u>September 2011</u>	<u>Change</u>
<b>Cash</b>			
Petty Cash	\$9,932	\$9,932	\$0
Checking	\$1,773,634	\$759,751	-\$1,013,883
Money Market	\$3,266,449	\$3,271,392	\$4,943
State Pool (LGIP)*	\$22,554,346	\$11,985,809	-\$10,568,537
*ORS maximum \$43,889,508			
<b>Cash - Total</b>	<b>\$27,604,361</b>	<b>\$16,026,884</b>	<b>-\$11,577,477</b>
<b>Investments - Total</b>	<b>\$7,500,000</b>	<b>\$10,500,000</b>	<b>\$3,000,000</b>
<b>Portfolio - Total</b>	<b>\$35,104,361</b>	<b>\$26,526,884</b>	<b>-\$8,577,477</b>

<b>Investment Activity</b>			
	<u>Description</u>	<u>Maturity/Call Date(s)</u>	<u>Par Value</u>
Purchase - 8/3/11	FHLMC 0.625%	8/8/13, 1X 8/12	\$2,000,000
Purchase - 9/12/11	FNMA 0.700%	9/19/14, 1X 9/12	\$2,000,000
Maturity - 8/5/11	FHLB 1.375%	8/5/2011	-\$1,000,000
		<b>Net Change in Investments</b>	<b>\$3,000,000</b>

	Treasury Report Pg. 31-32 <u>June 2011</u>	Treasury Report Pg. 15-16 <u>September 2011</u>	<u>Change</u>
<b>Book Yields</b>			
Total Portfolio <sup>1</sup>	0.59	0.65	0.06
Core Portfolio <sup>2</sup>	0.97	0.87	-0.10
State Pool (LGIP)	0.50	0.50	0
2 Year Treasury	0.52	0.18	-0.34
<sup>1</sup> Total City Cash & Investments			
<sup>2</sup> Invested Portion of City Portfolio			

**Other Information:**

On 10/11/11 the City notified intent to award banking services contract to Wells Fargo Bank; a three year contract starting January 1, 2012.

**MONTHLY MARKET COMMENTARY**



**OCTOBER 2011**

The themes for the month of October were uncertainty and volatility. This uncertainty was caused by the continuing sovereign debt crisis in Greece and fears that it will spread to other European countries. Fears that Europe would drag the rest of the world into a second recession kept interest rates low and the equity markets erratic. By the end of the month the following issues were decided on during the European Summit meeting:

- 1) Leverage of the European Financial Stability Facility (EFSF) – Allow the use of the EFSF as insurance against missed debt payments.
- 2) Greek Sovereign Debt-Proposed a 50% voluntary haircut on private holdings of Greek Debt.
- 3) Bank Recapitalization – The European Banks will need a 9% capital threshold to be achieved by June 2012.

This will be an issue to continue to monitor as the Greek public generally reject any proposed austerity measures. The bond market reaction has been a flight to quality (lower yields) when it appears that no deal has been reached and a spike in rates when the market perceives acceptance of a deal to solve the sovereign debt crisis.

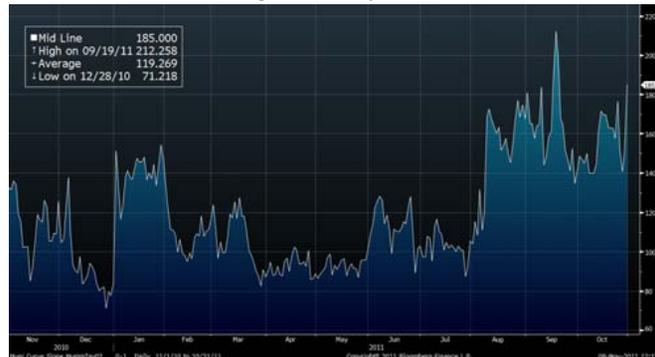
**Municipal Bonds:** One asset class which deserves some comment is municipal bonds. The chart below illustrates the relationship in yield between AAA rated municipal bonds and US Treasury securities. Percentages higher than 100% indicate that AAA municipal bonds are now yielding more than treasuries. AAA rated municipal securities are trading at extremely high ratios in the five year sector while longer dated AAA municipals are just under their recent high levels hit in late September.

Investors\*\* with investment policies and risk tolerance that allows very highly rated municipal securities should consider this aberration as a way to increase yields versus treasury/agency alternatives. Five year AAA municipal maturities are now yielding 125% of treasury yields and are trading significantly higher than last June when they yielded just 72% of treasury yields. Treasury yields in the five year area are now at .91%. AAA municipals yielding 125% more, or close to a yield of 1.15%, could offer significant value and potentially greater performance with a ratio stabilizing at current levels and a significant performance advantage if ratios return to June levels.

Municipal/Treasury Ratios		
Date	2 Year	5 Year
10/31/2011	185	125.39
9/30/2011	141.633	100.105
8/31/2011	167.662	92.939
7/31/2011	105.602	89.528
6/30/2011	102.826	72.02
5/31/2011	100.213	74.588
4/30/2011	88.595	78.974

Source: Bloomberg

2 Year Municipal/Treasury Ratio



5 Year Municipal/Treasury Ratio



Other Economic Data:

- The Non-farm payrolls (NFP) released on 10/07 showed that NFP increased 103,000 in September vs. expectations of an increase of 60,000.
- Third quarter GDP rose 2.5%, as expected.

**CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:**

08	/31/11 09	/30/11 10	/31/11 C	Change August
3-month bill	0.01	0.02	-0.01	-0.03
6-month bill	0.05	0.05	0.04	-0.01
2-year note	0.20	0.24	0.24	unch
5-year note	0.96	0.95	0.96	+0.01
10-year note	2.22	1.92	2.11	+0.19

Source: Bloomberg

\*\* City of Corvallis investment policy allows for investment of its portfolio in municipal bonds, and so staff are working with DFIM to determine if the risk/diversification/return opportunity may be ideal for impending property tax receipts within the duration strategy.

\* This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

## Policy Compliance Report

(Market Values)

Overall Portfolio Structure						
	Investment Strategy Range		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$16,531,274.79	60.00%	<b>66.0%</b>	5.97%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$8,525,648.00	40.00%	<b>34.0%</b>	-5.97%
<b>Total</b>			<b>\$25,056,922.79</b>			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	66%	Yes
Under 1 Year	> 25%	66%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.82	Yes

Asset Allocation Strategy							
	Policy Maximum Allocation	Per Issuer Restriction	Current Portfolio Allocation	Market Value	Policy Maximum Maturity	Amount Available to Invest	Within Limits
US Treasuries	100%		0.00%	\$0.00	5 Years	\$25,056,922.79	Yes
Federal Agency and Agency Sponsored	100%	40%	34.03%	\$8,525,648.00	5 Years	\$16,531,274.79	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	16.23% <sup>1</sup>	\$4,067,029.44		\$2,197,201.26	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$2,505,692.28	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$2,505,692.28	Yes
State Obligations (OR,WA, AA or better)	10%	5%	0.00%	\$0.00	5 Years	\$2,505,692.28	Yes
State Pool	ORS Maximum or 100%		49.74%	\$12,464,245.35	N/A	\$31,425,262.65	Yes
<b>Total</b>			<b>100.00%</b>	<b>\$25,056,922.79</b>			

ORS Maximum \$43,889,508.00

**\*Investment Policy Note: "The combination of CD's, BA's, Repurchase Agreements, And CP may not exceed 25% of the total portfolio with any one financial institution."**

1) For ease of reporting, all issuers in this category are reported together. Compliance has been met per issuer.

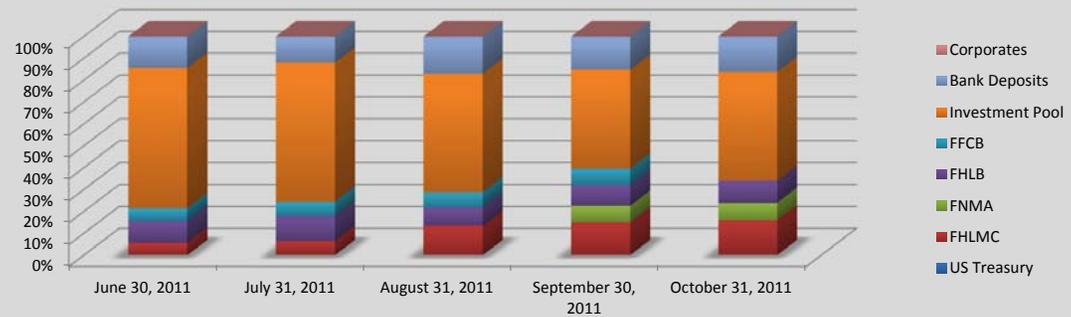
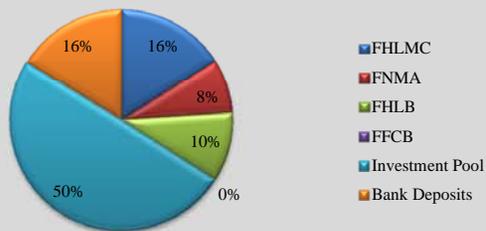
**Total Asset Allocation Strategy**  
 (Market Values)

**Commentary**

The portfolio remains diversified between GSEs.

Sector	Yield	June 30, 2011	July 31, 2011	August 31, 2011	September 30, 2011	October 31, 2011	Change From Last Month
US Treasury	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLMC	0.94%	\$2,000,000.00	\$2,002,724.00	\$4,012,872.00	\$4,008,818.00	\$4,007,542.00	(\$1,276.00)
FNMA	0.70%	\$0.00	\$0.00	\$0.00	\$1,991,008.00	\$1,992,986.00	\$1,978.00
FHLB	0.88%	\$3,532,743.00	\$3,530,246.50	\$2,530,317.00	\$2,527,161.00	\$2,525,120.00	(\$2,041.00)
FFCB	0.00%	\$2,017,266.00	\$2,011,320.00	\$2,005,932.00	\$2,000,000.00	\$0.00	(\$2,000,000.00)
Investment Pool	0.50%	\$22,554,345.59	\$19,504,341.45	\$16,106,663.34	\$11,985,808.79	\$12,464,245.35	\$478,436.56
Bank Deposits	0.51%	\$5,050,015.46	\$3,673,937.50	\$5,068,405.75	\$4,041,074.35	\$4,067,029.44	\$25,955.09
Corporates	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total</b>	<b>0.81%</b>	<b>\$35,154,370.05</b>	<b>\$30,722,569.45</b>	<b>\$29,724,190.09</b>	<b>\$26,553,870.14</b>	<b>\$25,056,922.79</b>	<b>(\$1,496,947.35)</b>

**Current Sector Allocation**





**DETAIL AMORTIZATION COST RETURN**  
**CITY OF CORVALLIS TOTAL**

From 09-30-11 to 10-31-11

<b>CURRENT HOLDINGS</b>	<b>Interest Earned</b>	<b>Accretion (Amortization)</b>	<b>Realized Gain/Loss</b>	<b>Total Income</b>
AGENCY BULLET	2,197.92	-1,410.28	0.00	787.64
AGENCY CALLABLE	5,790.97	-72.45	0.00	5,718.52
CASH & EQUIVALENTS	1,858.45	0.00	0.00	1,858.45
OR STATE POOL	6,657.15	0.00	0.00	6,657.15
<b>TOTAL</b>	<b>16,504.49</b>	<b>-1,482.73</b>	<b>0.00</b>	<b>15,021.76</b>

**SUMMARY OF AMORTIZED COST BASIS**  
**RETURN FOR THE PERIOD**  
**CITY OF CORVALLIS TOTAL**  
 September 30, 2011 to October 31, 2011

	<b>Total Portfolio</b>
Interest Earned	16,504.49
Accretion/Amortization	-1,482.73
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	15,021.76
Average Daily Historical Cost	26,526,202.52
Return	0.06%
Annualized Return	0.67%
Annualized Return Net of Fees	0.67%
Weighted Duration to Maturity in Years	0.80
Weighted Days to Maturity	299



**CITY OF CORVALLIS TOTAL  
 PORTFOLIO HOLDINGS**

October 31, 2011

Security Symbol	Quantity	Security	Call Date	Pur Date	Amort Price	Book Yield	Market Price	Market Yield	Market Value	Accrued Interest	Total Value	Unrealized Gain/Loss	Pct. Assets	Dur Mat	Dur Call
<b>AGENCY BULLET</b>															
3133XXYX9	1,000,000	FEDERAL HOME LN BKS 1.875% Due 06-21-13		05-11-11	101.89	0.71	102.44	0.38	1,024,361.00	6,770.83	1,031,131.83	5,494.21	4.1	1.61	1.61
<b>AGENCY CALLABLE</b>															
3134G2SL7	2,000,000	FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13	08-08-12	08-03-11	100.08	0.57	100.00	0.62	2,000,076.00	2,881.94	2,002,957.94	-1,459.52	8.0	1.76	0.77
313373QW5	1,500,000	FEDERAL HOME LN BKS 1.050% Due 11-25-13	11-25-11	05-09-11	100.00	1.05	100.05	1.02	1,500,759.00	6,825.00	1,507,584.00	759.00	6.0	2.03	0.07
3135G0DF7	2,000,000	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14	09-19-12	09-12-11	100.00	0.70	99.65	0.82	1,992,986.00	1,633.33	1,994,619.33	-7,014.00	8.0	2.85	0.88
3134G2PM8	2,000,000	FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14	06-29-12	06-28-11	99.82	1.31	100.37	1.13	2,007,466.00	8,472.22	2,015,938.22	11,078.21	8.0	3.08	0.66
	7,500,000					0.90		0.89	7,501,287.00	19,812.50	7,521,099.50	3,363.69	29.9	2.46	0.63
<b>CASH &amp; EQUIVALENTS</b>															
CASH	10,392	CASH 0.220% Due 11-01-11		10-31-11	1.00	0.22	1.00	0.22	10,392.00	0.00	10,392.00	0.00	0.0	0.00	0.00
CBANK	783,579	Corvallis B of A 0.300% Due 11-01-11		10-31-11	1.00	0.30	1.00	0.30	783,578.83	0.00	783,578.83	0.00	3.1	0.00	0.00
CBANK2	3,273,059	Corvallis Umpqua Bank 0.600% Due 11-01-11		10-31-11	1.00	0.60	1.00	0.60	3,273,058.61	0.00	3,273,058.61	0.00	13.1	0.00	0.00
	4,067,029					0.54		0.54	4,067,029.44	0.00	4,067,029.44	0.00	16.2	0.00	0.00
<b>OR STATE POOL</b>															
ORPOOL	10,464,245	OREGON STATE POOL 0.500% Due 11-01-11		03-31-11	1.00	0.50	1.00	0.50	10,464,245.35	0.00	10,464,245.35	0.00	41.8	0.00	0.00
ORPOOL	2,000,000	OREGON STATE POOL 0.500% Due 11-01-11		10-03-11	1.00	0.50	1.00	0.50	2,000,000.00	0.00	2,000,000.00	0.00	8.0	0.00	0.00
	12,464,245					0.50		0.50	12,464,245.35	0.00	12,464,245.35	0.00	49.7	0.00	0.00
<b>TOTAL</b>	<b>25,031,275</b>					<b>0.63</b>		<b>0.62</b>	<b>25,056,922.79</b>	<b>26,583.33</b>	<b>25,083,506.12</b>	<b>8,857.89</b>	<b>100.0</b>	<b>0.80</b>	<b>0.26</b>

\*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special note: At this time AXYS does not correctly calculate book or market yields for variable rate, floating rate, or mortgage backed securities.



**CITY OF CORVALLIS TOTAL  
 TRANSACTION SUMMARY**

From 10-01-11 To 10-31-11

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
<b>Buy long</b>							
10-03-11	10-03-11	ORPOOL	2,000,000	OREGON STATE POOL 0.500% Due 11-01-11		2,000,000.00	
10-31-11	10-31-11	CASH	10,392	CASH 0.220% Due 11-01-11		10,392.00	
10-31-11	10-31-11	CBANK	783,579	Corvallis B of A 0.300% Due 11-01-11		783,578.83	
10-31-11	10-31-11	CBANK2	3,273,059	Corvallis Umpqua Bank 0.600% Due 11-01-11		3,273,058.61	
						6,067,029.44	
<b>Deposit</b>							
10-31-11	10-31-11	manfee		Management Fee <sup>1</sup>		1,500.00	
<b>Interest</b>							
10-31-11	10-31-11	ORPOOL		OREGON STATE POOL 0.500% Due 11-01-11		821.92	
10-31-11	10-31-11	CBANK		Corvallis B of A 0.300% Due 11-01-11		191.38	
10-31-11	10-31-11	CBANK2		Corvallis Umpqua Bank 0.600% Due 11-01-11		1,667.07	
10-31-11	10-31-11	ORPOOL		OREGON STATE POOL 0.500% Due 11-01-11		5,835.23	
						8,515.60	
<b>Sold Accrued Interest</b>							
10-03-11	10-03-11	31331Y3P3		FEDERAL FARM CR BKS CONS 3.500% Due 10-03-11		35,000.00	
<b>Sell long</b>							
10-03-11	10-03-11	31331Y3P3	2,000,000	FEDERAL FARM CR BKS CONS 3.500% Due 10-03-11		2,000,000.00	MATURITY
10-31-11	10-31-11	CASH	9,932	CASH 0.220% Due 11-01-11		9,932.00	

1) Monthly allocation of the quarterly investment advisor management fee from Davidson Fixed Income Management.



## CITY OF CORVALLIS TOTAL TRANSACTION SUMMARY

From 10-01-11 To 10-31-11

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
10-31-11	10-31-11	CBANK	759,751	Corvallis B of A 0.300% Due 11-01-11		759,750.81	
10-31-11	10-31-11	ORPOOL	1,521,563	OREGON STATE POOL 0.500% Due 11-01-11		1,521,563.44	
10-31-11	10-31-11	CBANK2	3,271,392	Corvallis Umpqua Bank 0.600% Due 11-01-11		3,271,391.54	
						<hr/> 7,562,637.79	



**AMORTIZATION AND ACCRETION - SETTLED TRADES**  
**CITY OF CORVALLIS TOTAL**  
 October 31, 2011

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
<b>FNMA CALLABLE(Straight Line)</b>									
FEDERAL NATL MTG ASSN 0.700% Due 09-19-14 (3135G0DF7)									
2,000,000	1	09-12-11	100.000	2,000,000.00	0.00	0.00	0.00	0.00	2,000,000.00
<b>FHLB CALLABLE(Straight Line)</b>									
FEDERAL HOME LN BKS 1.050% Due 11-25-13 (313373QW5)									
1,500,000	1	05-09-11	100.000	1,500,000.00	0.00	0.00	0.00	0.00	1,500,000.00
<b>FHLB(Straight Line)</b>									
FEDERAL HOME LN BKS 1.875% Due 06-21-13 (3133XXYX9)									
1,000,000	1	05-11-11	102.429	1,024,290.00	-977.44	-5,423.21	-5,423.21	-18,866.79	1,018,866.79
<b>FHLMC CALLABLE(Straight Line)</b>									
FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14 (3134G2PM8)									
2,000,000	1	06-28-11	99.800	1,996,000.00	96.95	387.79	387.79	3,612.21	1,996,387.79
FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13 (3134G2SL7)									
2,000,000	1	08-03-11	100.100	2,002,000.00	-169.40	-464.48	-464.48	-1,535.52	2,001,535.52
Total				3,998,000.00	-72.45	-76.69	-76.69	2,076.69	3,997,923.31
<b>CASH(Straight Line)</b>									
CASH 0.220% Due 11-01-11 (CASH)									
10,392	2	10-31-11	1.000	10,392.00	0.00	0.00	0.00	0.00	10,392.00
Corvallis B of A 0.300% Due 11-01-11 (CBANK)									
783,579	4	10-31-11	1.000	783,578.83	0.00	0.00	0.00	0.00	783,578.83
Corvallis Umpqua Bank 0.600% Due 11-01-11 (CBANK2)									
3,273,059	7	10-31-11	1.000	3,273,058.61	0.00	0.00	0.00	0.00	3,273,058.61
Total				4,067,029.44	0.00	0.00	0.00	0.00	4,067,029.44
<b>POOL(Straight Line)</b>									
OREGON STATE POOL 0.500% Due 11-01-11 (ORPOOL)									

\*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special Note: If a security matures or is sold between prior month end and this report it will not be included on this table. Please make adjustments as needed.



**AMORTIZATION AND ACCRETION - SETTLED TRADES**  
**CITY OF CORVALLIS TOTAL**  
October 31, 2011

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
10,464,245	2	03-31-11	1.000	10,464,245.35	0.00	0.00	0.00	0.00	10,464,245.35
2,000,000	1	10-03-11	1.000	2,000,000.00	0.00	0.00	0.00	0.00	2,000,000.00
12,464,245				12,464,245.35	0.00	0.00	0.00	0.00	12,464,245.35
<b>GRAND TOTAL</b>				<b>25,053,564.79</b>	<b>-1,049.89</b>	<b>-5,499.89</b>	<b>-5,499.89</b>	<b>-16,790.11</b>	<b>25,048,064.90</b>

\*This information herein has been obtained from sources which we believe to be reliable, but do not guarantee its accuracy.

Special Note: If a security matures or is sold between prior month end and this report it will not be included on this table. Please make adjustments as needed.



**INTEREST ACCRUALS**  
**CITY OF CORVALLIS TOTAL**  
 From 09-30-11 To 10-31-11

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
<b>AGENCY</b>							
AGENCY BULLET							
FHLB							
3133XXYX9	FEDERAL HOME LN BKS 1.875% Due 06-21-13	5,156.25	0.00	0.00	0.00	1,614.58	6,770.83
		<u>5,156.25</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,614.58</u>	<u>6,770.83</u>
FFCB							
31331Y3P3	FEDERAL FARM CR BKS CONS 3.500% Due 10-03-11	34,416.67	0.00	-35,000.00	0.00	583.33	0.00
		<u>34,416.67</u>	<u>0.00</u>	<u>-35,000.00</u>	<u>0.00</u>	<u>583.33</u>	<u>0.00</u>
AGENCY BULLET Total		<u>39,572.92</u>	<u>0.00</u>	<u>-35,000.00</u>	<u>0.00</u>	<u>2,197.92</u>	<u>6,770.83</u>
AGENCY CALLABLE							
FHLB							
313373QW5	FEDERAL HOME LN BKS 1.050% Due 11-25-13	5,468.75	0.00	0.00	0.00	1,356.25	6,825.00
		<u>5,468.75</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,356.25</u>	<u>6,825.00</u>
FNMA							
3135G0DF7	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14	427.78	0.00	0.00	0.00	1,205.56	1,633.33
		<u>427.78</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,205.56</u>	<u>1,633.33</u>
FHLMC							
3134G2SL7	FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13	1,805.56	0.00	0.00	0.00	1,076.39	2,881.94
3134G2PM8	FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14	6,319.44	0.00	0.00	0.00	2,152.78	8,472.22
		<u>8,125.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>3,229.17</u>	<u>11,354.17</u>



**INTEREST ACCRUALS**  
**CITY OF CORVALLIS TOTAL**  
 From 09-30-11 To 10-31-11

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
	AGENCY CALLABLE Total	14,021.53	0.00	0.00	0.00	5,790.97	19,812.50
	AGENCY Total	53,594.44	0.00	-35,000.00	0.00	7,988.89	26,583.33
<b>CASH</b>							
CASH & EQUIVALENTS							
CASH							
CASH	CASH	0.00	0.00	0.00	0.00	0.00	0.00
	0.220% Due 11-01-11						
		0.00	0.00	0.00	0.00	0.00	0.00
BANK DEPOSITS							
CBANK	Corvallis B of A	0.00	0.00	0.00	-191.38	191.38	0.00
	0.300% Due 11-01-11						
CBANK2	Corvallis Umpqua Bank	0.00	0.00	0.00	-1,667.07	1,667.07	0.00
	0.600% Due 11-01-11						
		0.00	0.00	0.00	-1,858.45	1,858.45	0.00
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-1,858.45	1,858.45	0.00
OR STATE POOL							
STATE INVESTMENT POOL							
ORPOOL	OREGON STATE POOL	0.00	0.00	0.00	-6,657.15	6,657.15	0.00
	0.500% Due 11-01-11						
		0.00	0.00	0.00	-6,657.15	6,657.15	0.00
	OR STATE POOL Total	0.00	0.00	0.00	-6,657.15	6,657.15	0.00
	CASH Total	0.00	0.00	0.00	-8,515.60	8,515.60	0.00



**INTEREST ACCRUALS**  
**CITY OF CORVALLIS TOTAL**  
From 09-30-11 To 10-31-11

<u>Security Symbol</u>	<u>Description</u>	<u>Beginning Accrued Interest</u>	<u>Purchased Interest</u>	<u>Sold Interest</u>	<u>Interest Received</u>	<u>Earned Interest</u>	<u>Ending Accrued Interest</u>
<b>TOTAL PORTFOLIO</b>		<b>53,594.44</b>	<b>0.00</b>	<b>-35,000.00</b>	<b>-8,515.60</b>	<b>16,504.49</b>	<b>26,583.33</b>

**City of Corvallis**  
**Glossary of Davidson Fixed Income Management, Inc. Acronyms and Terms**

<b>Investment/Issuer Types</b>				<b>Other</b>	
BA	Banker's Acceptance	FFCB	Federal Farm Credit Bureau	CPI	Consumer Price Index
CASH	Petty Cash	FFCR	Federal Farm Credit Bank	FOMC	Federal Open Market Committee
CBANK	Bank of America Checking	FHLB	Federal Home Loan Bank	GDP	Gross Domestic Product
CBANK2	Umpqua Money Market	FHLMC	Federal Home Loan Mortgage Corporation	OSTFB	Oregon Short Term Fund Board
CD	Certificates of Deposit	FNMA	Federal National Mortgage Association	QE	Quantitative Easing
CP	Commercial Paper	ORPOOL	Local Government Investment Pool	YTM	Yield to Maturity

\* All investments are held with US Bank, the City's third-party safekeeper.

**Asset Allocation Strategy:** a strategy that incorporates evaluating spread relationships between the investment alternatives. Treasury securities are the baseline yields to which all other issues are compared.

**Benchmark:** a benchmark is a target or market level comparator using a set of securities that appropriately matches the portfolio's risk and return characteristics through interest rate cycles.

**Book Value:** the cost of the principal at the time of the security purchase.

**Buy long:** reporting program terminology meaning a security has been placed in the portfolio.

**Days to Maturity:** (weighted average) number of days from the report date to the maturity date of a security (or group of securities).

**Duration Strategy:** a strategy that provides discipline for making investment decisions based on balancing risk and return. The duration of the portfolio will be adjusted relative to the benchmark as interest rates vary. The portfolio duration will be longer than the benchmark when rates are historically high and shorter when rates are historically low. The portfolio manager will typically manage the duration in a range of +/-25% to the benchmark duration.

**Investment Component (Core):** portion of the portfolio that is not expected to be needed for daily needs of participants. This portion is invested in maturities between 1 month and 3 years with an average maturity target of 9 months.

**Liquidity Component:** portion of the portfolio that is held in short maturity investments to meet immediate liquidity needs of the Funds. Investments designated to this component are LGIP Funds and Bank deposits.

**Market Value:** par value time the price at which the security could theoretically have been sold at month end per Interactive Data Corp. (IDC) an independent third-party security pricing firm.

**Par Value:** the face value of a security. This is the value to which the coupon rate is applied for interest payments.

**Purchased Accrued Interest:** number of days interest between last coupon date and purchase date that is paid for at time of investment purchase.

**Return:** the return of the total funds will be calculated on an accrual yield basis, which is the amount paid out to participants. This return will be compared to the OST Pool rate. Additionally, a total return calculation will be calculated and tracked internally to assist management in being accountable to the risk and return of the core investment portfolio on a market value basis.

**Risk:** the risks associated with investing are credit risk, mark to market risk and reinvestment rate risk.

**Security Types:** the portfolio's call exposure will be managed through balancing callable or variable rate exposure to fixed rate maturity securities.

**Sell long:** reporting program terminology meaning a security in the portfolio is available to sell; typically a liquid/cash account, since the City generally holds to maturity.

**Term:** (weighted average) number of days from the purchase date to the maturity date of a security (or group of securities).

**Yield Curve Strategy:** the portfolio will be generally laddered, but the manager will implement a yield curve strategy when value is present in particular maturity sectors.

**City of Corvallis  
Cash Flow Summary  
October 31, 2011**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	6,604,337	7,660,810	(1,056,473)
Projected Activity	5,912,167	7,811,796	(1,899,629)
<b>Difference</b>	<b>692,170</b>	<b>(150,986)</b>	<b>843,156</b>

(1) Receipts include deposits and interest received.

Receipts are greater than budget mostly due to Federal Grants received in October, but budgeted for in prior months. The first reimbursement was received for the City Hall Seismic Upgrade, as well as a large reimbursement from a Community Development Block Grant (CDBG) and HOME Grant, the largest Federal block grant from the Department of Housing and Urban Development. Additionally, funds from the Transit Operating Grant were received later than projected due to the federal drawdown system being down until the beginning of October for their fiscal year end annual maintenance.

(2) Disbursements include vendor payments, payroll costs, and all other operating expenditures made by check and wire or electronic transfer.

Disbursements are lower than budget mainly in the areas of Salaries & Wages, Benefits and City Loans. Significant vacancies City-wide account for the variances in Salaries & Wages and Benefits. For City Loans, the Community Development Revolving Fund continues to see spending variances when compared to targeted cash flow, based on slower than anticipated timing of anticipated program loans issued year-to-date as well as current year carryover balancing adjustments made based on higher than anticipated prior year spenddown.

Intrafund and interfund transfers, and investment purchases and maturities are movements between cash in different accounting funds or investment securities. The net effect on cash is zero, therefore they are not included.

**City of Corvallis**  
**Monthly Revenue Allocations**  
**Distributed in October 2011**

<b>Fund</b>	<b>Fund Name</b>	<b>Month's Avg Cash Balance</b>	<b>Interest Distributed</b>	<b>Fund</b>	<b>Fund Name</b>	<b>Month's Avg Cash Balance</b>	<b>Interest Distributed</b>
101	General	(1,564,701.80)	(296.39)	460	Davidson Library	5,916.90	5.28
201	Street	93,397.43	256.45	501	Water	1,489,772.84	1,191.02
208	Street SDC	1,704,709.01	1,493.97	502	Water Timber	186,075.80	172.50
210	Parks & Recreation	(73,568.78)	256.46	508	Water SDC	5,153,220.72	4,544.74
211	Parks & Recreation - Aquatics	(141,639.05)	(30.79)	509	Water Construction	150,184.83	135.63
212	Open Space	93,829.69	84.19	520	Wastewater	3,890,938.82	3,357.36
218	Parks SDC	1,439,240.16	1,230.43	528	Wastewater SDC	7,897,955.59	7,311.31
220	911	731,592.11	628.40	529	Wastewater Construction	(259,630.85)	(40.19)
230	Development Services	1,442,888.47	1,308.94	540	Storm Water	1,490,013.97	1,387.92
240	Fire & Rescue	(1,386,502.68)	(272.24)	548	Storm Water SDC	34,301.53	27.13
250	Comm Dev Revolving	(448,368.65)	(44.03)	549	Storm Water Construction	27,353.37	25.85
260	Parking	988,251.28	871.72	560	Airport	575,454.52	518.49
270	Transit	(174,467.59)	(33.52)	569	Airport Construction	22,790.45	12.06
290	Library	(716,852.09)	(104.37)	610	Fleet Maintenance	54,167.84	60.62
291	Library 2010	432,045.30	387.75	615	Facility Maintenance	166,613.95	136.29
301	Capital Improvement	851,210.87	820.21	620	Technology & Communications	638,106.84	547.95
401	General Obligation Debt Service	81,672.07	73.19	625	Administrative Services	456,904.08	366.67
				630	Risk Management	815,302.54	731.90
					<b>Total</b>	<b>26,148,179.49</b>	<b>27,122.90</b> *

\*\$11,743 of accrued interest income for September was recorded in October.

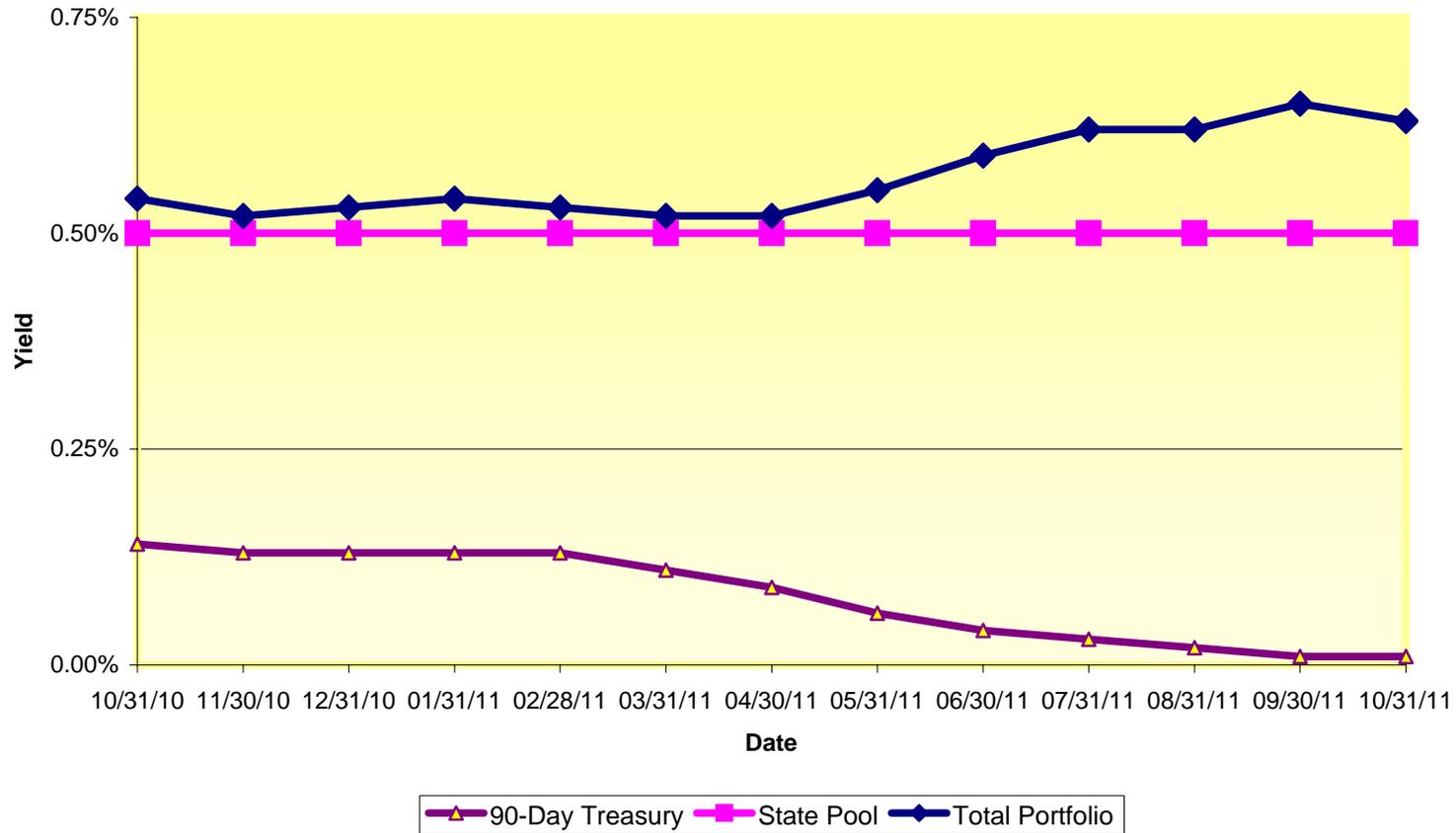
Accrual accounting on investments was implemented in August 2011. The interest distributed will equal the monthly interest income accrual, net of any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

The distribution is based on the average cash balance for the period in which interest is earned.

The interest distributed to sub-funds 509, 529, 549, & 569 is distributed to the operations fund.



## City of Corvallis Total Portfolio vs. Benchmark October 2010 - October 2011

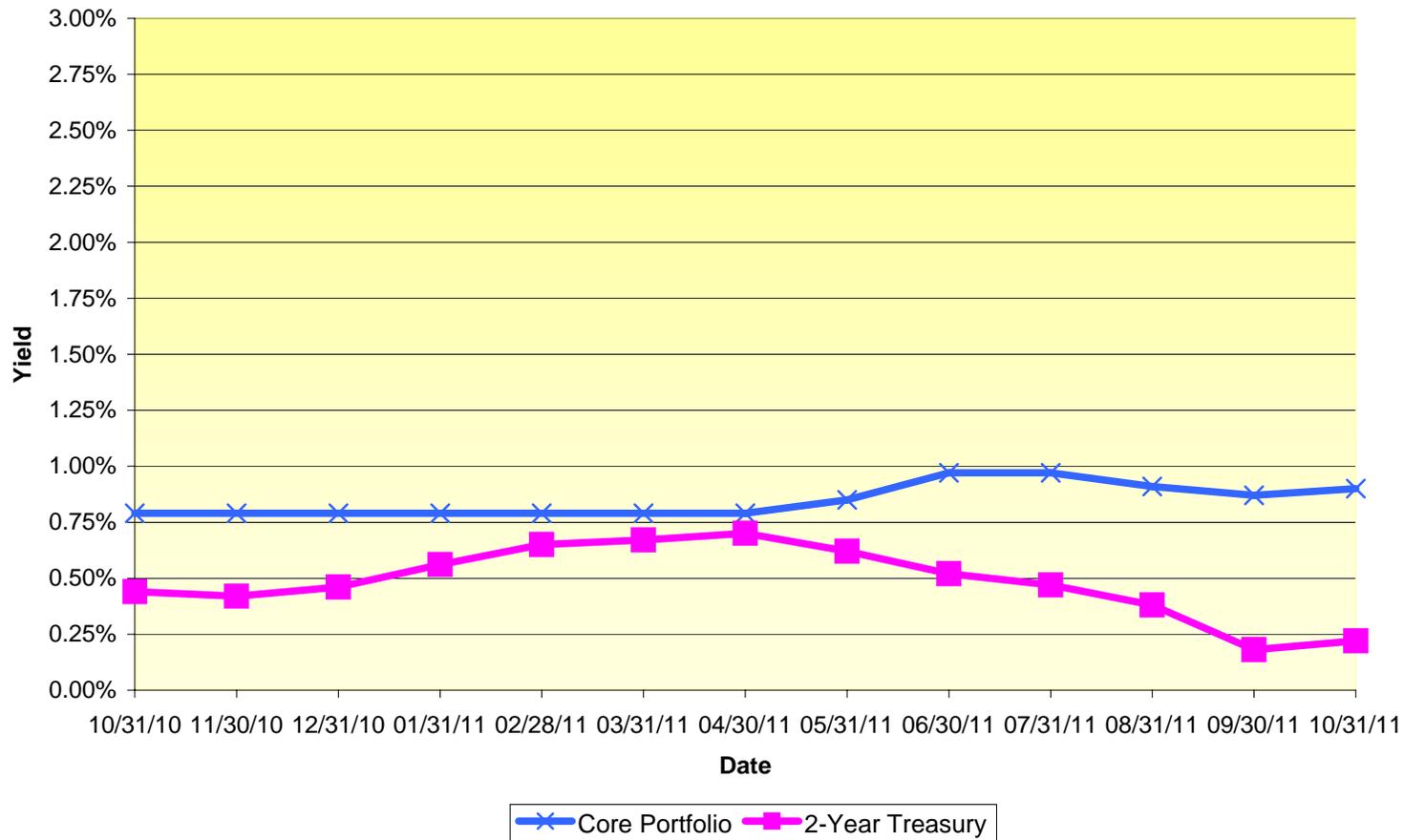




# City of Corvallis

## Core Portfolio vs. Benchmark

### October 2010 - October 2011





# City of Corvallis Cash & Investments

