

CITY OF CORVALLIS

Investment Council

Treasury Report

February 2012

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

Davidson Fixed Income Management Report

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FEBRUARY 2012

Market participants have not met with many surprises over the last month. Expectations were for interest rates to remain stable during February and the market did not disappoint. The Greek debt issues are still not fully resolved but are moving closer to an intermediate resolution with the ECB funding the European banks with low interest loans for the next three years. Greece has agreed to pension reductions, wage cuts, layoffs, asset sales and spending reductions across the board. The agreement assumes the Greek economy will be growing at 4.5% to 2014. The expectation is that European leaders will give their final approval in March.

While the news overseas remains unstable, economic news in the U.S. is slowly improving. Stronger than expected economic data has resulted in slightly higher rates in February. It was announced this month that wholesale inventories in December rose 1.0%. A gain of 0.4% was expected. Durable inventories rose 0.7%, nondurables rose 1.3% and sales rose 1.3%. The data indicates inventories will contribute to a small gain in fourth quarter GDP. Housing starts in January rose 1.5% to 699,000 units annualized. A gain of 675,000 was expected. The previous month was revised higher to 689,000. The Philadelphia Fed index in February rose to 10.2 vs. 7.3 the previous month, for its fifth consecutive positive reading. A gain to 9.0 was expected. All components were positive except for inventories and all rising except for the number of employees. The report depicts growth in this region.

Unemployment

The biggest market mover in February was the unemployment/non-farm payroll report. Upon the announcement, 30 year Treasury bonds sold off two and a half points to yield 3.14%. Non-farm payrolls in January rose 243,000. A gain of 140,000 was expected. Revisions to the previous two months added 60,000 workers. Benchmark revisions added an additional 165,000 workers. Private payrolls added 257,000 workers while government fell 14,000. Job gains were widespread except for government, information and financial activities. Private payrolls have risen 2.229 million in the past twelve months while government has fallen 232,000 in the same period. The unemployment rate in January fell to 8.3% vs. 8.5% the previous month. An unchanged reading was expected. This is the lowest level of unemployment since February 2009. This is a strong report and puts an additional quantitative easing off the table.

FOMC Minutes released

The minutes of the January 24/25 FOMC meeting said a “few” members felt additional bond buying (QE) would be needed soon. This compares to the December release which said “a number” saw the need for QE. This would imply QE is on the table but not imminent. The economy was expanding moderately, housing is depressed, inflation is expected to be subdued and unemployment would fall gradually. Policy is expected to remain accommodative with rates exceptionally low “at least through late 2014”.

| | | |
|------------------------------|------------------------------|---------|
| Returns for February: | US One-year Note Index | -0.024% |
| | Current two-year Treasury | -0.133% |
| | Current ten-year Treasury | -1.083% |
| | Dow Jones Industrial Average | 8.59% |
| | CRB Commodities Index | 8.76% |

Source: Bloomberg

CHANGES IN THE TREASURY MARKET OVER THE PAST QUARTER:

| | <u>12/31/11</u> | <u>01/31/12</u> | <u>02/29/12</u> | <u>Change Feb</u> |
|--------------|-----------------|-----------------|-----------------|-------------------|
| 3-month bill | 0.01 | 0.05 | 0.08 | +0.03 |
| 6-month bill | 0.06 | 0.08 | 0.13 | +0.05 |
| 2-year note | 0.24 | 0.22 | 0.30 | +0.08 |
| 5-year note | 0.83 | 0.70 | 0.86 | +0.16 |
| 10-year note | 1.88 | 1.80 | 1.97 | +0.17 |

1) Agreement was signed on March 12, 2012.

Source: Bloomberg

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 | \$27,492,960.15 | 60.00% | 64.5% | 4.51% |
| Investment Component (Core) | \$15,000,000.00 | \$20,000,000.00 | \$15,123,112.00 | 40.00% | 35.5% | -4.51% |
| Total | | | \$42,616,072.15 | | | |

| | Policy Requirement | Actual Portfolio | Within Limits |
|---------------|--------------------|------------------|---------------|
| Under 30 Days | > 10% | 65% | Yes |
| Under 1 Year | > 25% | 65% | Yes |
| Under 5 Years | 100% | 100% | Yes |
| WAM | < 1.5 Years | 0.70 | 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 | \$42,616,072.15 | Yes |
| Federal Agency and Agency Sponsored | 100% | 40% | 35.49% | \$15,123,112.00 | 5 Years | \$27,492,960.15 | Yes |
| CDs/ Bank Deposits/ Savings (OST Qualified Institutions) | 25% | 15% | 9.31% | \$3,966,925.37 | | \$6,687,092.67 | Yes |
| Bankers Acceptances | 10% | | 0.00% | \$0.00 | | \$4,261,607.22 | Yes |
| Commercial Paper (A-1/P-1) | 10% | 5% | 0.00% | \$0.00 | 120 Days | \$4,261,607.22 | Yes |
| State Obligations (OR,WA, AA or better) | 10% | 5% | 0.00% | \$0.00 | 5 Years | \$4,261,607.22 | Yes |
| State Pool | ORS Maximum or 100% | | 55.20% | \$23,526,034.78 | N/A | \$20,363,473.22 | Yes |
| Total | | | 100.00% | \$42,616,072.15 | | | |

ORS Maximum \$43,889,508.00

Policy : August 2011

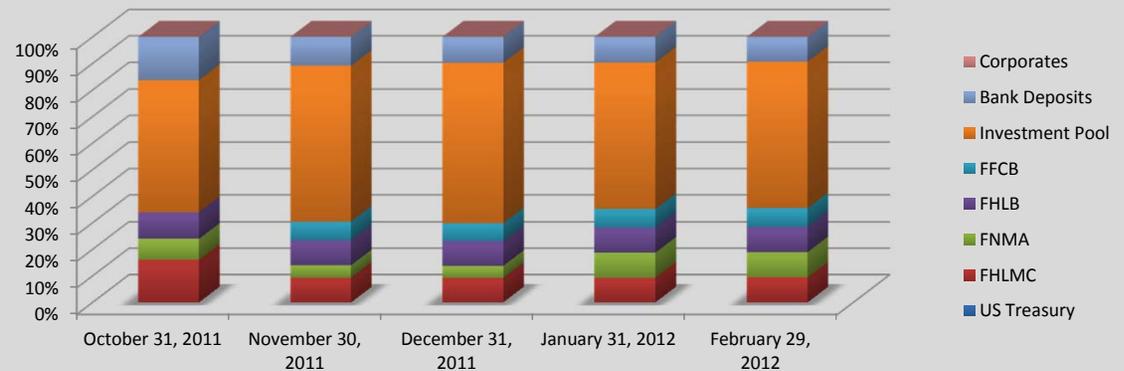
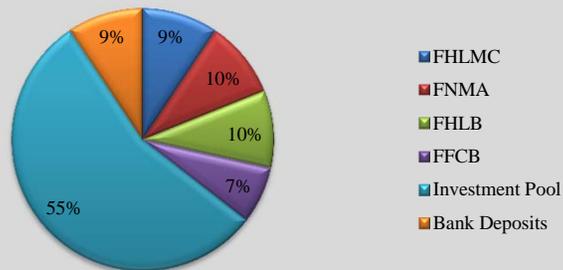
Total Asset Allocation Strategy
(Market Values)

Commentary

The portfolio remains diversified between government bonds.

| Sector | Yield | October 31, 2011 | November 30, 2011 | December 31, 2011 | January 31, 2012 | February 29, 2012 | Change From Last Month |
|-----------------|--------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| US Treasury | 0.00% | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| FHLMC | 0.94% | \$4,007,542.00 | \$4,006,958.00 | \$4,006,904.00 | \$4,006,854.00 | \$4,006,752.00 | (\$102.00) |
| FNMA | 1.51% | \$1,992,986.00 | \$1,994,266.00 | \$1,996,080.00 | \$4,069,336.00 | \$4,063,162.00 | (\$6,174.00) |
| FHLB | 0.59% | \$2,525,120.00 | \$4,049,236.00 | \$4,048,169.00 | \$4,050,786.00 | \$4,054,692.00 | \$3,906.00 |
| FFCB | 0.85% | \$0.00 | \$2,992,359.00 | \$2,996,088.00 | \$3,006,486.00 | \$2,998,506.00 | (\$7,980.00) |
| Investment Pool | 0.50% | \$12,464,245.35 | \$25,143,786.34 | \$26,455,864.13 | \$23,809,613.74 | \$23,526,034.78 | (\$283,578.96) |
| Bank Deposits | 0.53% | \$4,067,029.44 | \$4,664,062.87 | \$4,295,647.85 | \$4,145,819.39 | \$3,966,925.37 | (\$178,894.02) |
| Corporates | 0.00% | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Total | 0.58% | \$25,056,922.79 | \$39,565,603.49 | \$43,798,752.98 | \$43,088,895.13 | \$42,616,072.15 | (\$472,822.98) |

Current Sector Allocation





DETAIL AMORTIZATION COST RETURN
CITY OF CORVALLIS TOTAL

From 01-31-12 to 02-29-12

| CURRENT HOLDINGS | Interest Earned | Accretion (Amortization) | Realized Gain/Loss | Total Income |
|-------------------------|----------------------------|-------------------------------------|-------------------------------|---------------------|
| AGENCY BULLET | 6,027.78 | -2,951.04 | 0.00 | 3,076.74 |
| AGENCY CALLABLE | 5,708.89 | 210.04 | 0.00 | 5,918.93 |
| CASH & EQUIVALENTS | 2,413.56 | 0.00 | 0.00 | 2,413.56 |
| WA STATE POOL | 9,630.88 | 0.00 | 0.00 | 9,630.88 |
| OR STATE POOL | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL | 23,781.11 | -2,740.99 | 0.00 | 21,040.11 |

SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF CORVALLIS TOTAL
 January 31, 2012 to February 29, 2012

| | Total Portfolio |
|--|------------------------|
| Interest Earned | 23,781.11 |
| Accretion/Amortization | -2,740.99 |
| Realized Gain/Loss on Sales | 0.00 |
| Total Income on Portfolio | 21,040.11 |
| Average Daily Historical Cost | 43,098,550.80 |
| Return | 0.05% |
| Annualized Return | 0.62% |
| Annualized Return Net of Fees | 0.62% |
| Weighted Duration to Maturity in Years | 0.84 |
| Weighted Days to Maturity | 313 |



**CITY OF CORVALLIS TOTAL
PORTFOLIO HOLDINGS**

February 29, 2012

| 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 |
|-------------------------------|-------------------|--|-----------|----------|-------------|-------------|--------------|--------------|----------------------|------------------|----------------------|----------------------|--------------|-------------|-------------|
| AGENCY BULLET | | | | | | | | | | | | | | | |
| 3133XXYX9 | 1,000,000 | FEDERAL HOME LN BKS 1.875% Due 06-21-13 | | 05-11-11 | 101.51 | 0.71 | 102.07 | 0.29 | 1,020,747.00 | 3,541.67 | 1,024,288.67 | 5,695.37 | 2.4 | 1.30 | 1.30 |
| 313371UC8 | 3,000,000 | FEDERAL HOME LN BKS 0.875% Due 12-27-13 | | 11-21-11 | 100.59 | 0.55 | 101.13 | 0.25 | 3,033,945.00 | 4,520.83 | 3,038,465.83 | 16,334.19 | 7.1 | 1.81 | 1.81 |
| 31398A4M1 | 2,000,000 | FEDERAL NATL MTG ASSN 1.625% Due 10-26-15 | | 01-13-12 | 102.93 | 0.81 | 103.26 | 0.72 | 2,065,286.00 | 11,104.17 | 2,076,390.17 | 6,651.13 | 4.8 | 3.54 | 3.54 |
| | 6,000,000 | | | | | 0.66 | | 0.42 | 6,119,978.00 | 19,166.67 | 6,139,144.67 | 28,680.69 | 14.4 | 2.31 | 2.31 |
| AGENCY CALLABLE | | | | | | | | | | | | | | | |
| 3134G2SL7 | 2,000,000 | FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13 | 08-08-12 | 08-03-11 | 100.04 | 0.57 | 100.07 | 0.57 | 2,001,442.00 | 729.17 | 2,002,171.17 | 567.68 | 4.7 | 1.43 | 0.44 |
| 3135G0DF7 | 2,000,000 | FEDERAL NATL MTG ASSN 0.700% Due 09-19-14 | 09-19-12 | 09-12-11 | 100.00 | 0.70 | 99.89 | 0.74 | 1,997,876.00 | 6,222.22 | 2,004,098.22 | -2,124.00 | 4.7 | 2.52 | 0.55 |
| 31331KT91 | 3,000,000 | FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14 | 11-21-12 | 11-21-11 | 99.68 | 0.85 | 99.95 | 0.75 | 2,998,506.00 | 5,961.67 | 3,004,467.67 | 8,057.58 | 7.0 | 2.69 | 0.72 |
| 3134G2PM8 | 2,000,000 | FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14 | 06-29-12 | 06-28-11 | 99.84 | 1.31 | 100.27 | 1.15 | 2,005,310.00 | 4,166.67 | 2,009,476.67 | 8,543.80 | 4.7 | 2.77 | 0.33 |
| | 9,000,000 | | | | | 0.86 | | 0.80 | 9,003,134.00 | 17,079.72 | 9,020,213.72 | 15,045.06 | 21.1 | 2.39 | 0.54 |
| CASH & EQUIVALENTS | | | | | | | | | | | | | | | |
| CASH | 10,432 | CASH 0.220% Due 03-01-12 | | 01-31-12 | 1.00 | 0.22 | 1.00 | 0.22 | 10,432.00 | 0.00 | 10,432.00 | 0.00 | 0.0 | 0.01 | 0.01 |
| CBANK | 676,216 | Corvallis B of A 0.300% Due 03-01-12 | | 11-30-11 | 1.00 | 0.30 | 1.00 | 0.30 | 676,216.45 | 0.00 | 676,216.45 | 0.00 | 1.6 | 0.01 | 0.01 |
| CBANK | 3,280,277 | Corvallis B of A 0.300% Due 03-01-12 | | 02-29-12 | 1.00 | 0.30 | 1.00 | 0.30 | 3,280,276.92 | 0.00 | 3,280,276.92 | 0.00 | 7.7 | 0.01 | 0.01 |
| | 3,966,925 | | | | | 0.30 | | 0.30 | 3,966,925.37 | 0.00 | 3,966,925.37 | 0.00 | 9.3 | 0.01 | 0.01 |
| OR STATE POOL | | | | | | | | | | | | | | | |
| ORPOOL | 23,526,035 | OREGON STATE POOL 0.500% Due 03-01-12 | | 12-31-11 | 1.00 | 0.50 | 1.00 | 0.50 | 23,526,034.78 | 0.00 | 23,526,034.78 | 0.00 | 55.2 | 0.01 | 0.01 |
| TOTAL | 42,492,960 | | | | | 0.58 | | 0.53 | 42,616,072.15 | 36,246.39 | 42,652,318.54 | 43,725.75 | 100.0 | 0.84 | 0.45 |

*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 02-01-12 To 02-29-12

| Trade Date | Settle Date | Cusip | Quantity | Security | Call Date | Amount | Broker |
|------------------|-------------|-----------|-----------|---|-----------|--------------|--------|
| Buy long | | | | | | | |
| 02-29-12 | 02-29-12 | CBANK | 3,280,277 | Corvallis B of A 0.300% Due 03-01-12 | | 3,280,276.92 | |
| Deposit | | | | | | | |
| 02-29-12 | 02-29-12 | manfee | | Management Fee ¹ | | 1,500.00 | |
| Interest | | | | | | | |
| 02-08-12 | 02-08-12 | 3134G2SL7 | | FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13 | 08-08-12 | 6,250.00 | |
| 02-29-12 | 02-29-12 | POOL | | WA STATE POOL 0.139% Due 03-01-12 | | 9,630.88 | |
| 02-29-12 | 02-29-12 | CBANK | | Corvallis B of A 0.300% Due 03-01-12 | | 147.69 | |
| 02-29-12 | 02-29-12 | CBANK2 | | Corvallis Umpqua Bank 0.600% Due 03-01-12 | | 2,265.87 | |
| | | | | | | 18,294.44 | |
| Sell long | | | | | | | |
| 02-29-12 | 02-29-12 | ORPOOL | 283,579 | OREGON STATE POOL 0.500% Due 03-01-12 | | 283,578.96 | |
| 02-29-12 | 02-29-12 | CBANK | 181,160 | Corvallis B of A 0.300% Due 03-01-12 | | 181,159.89 | |
| 02-29-12 | 02-29-12 | CBANK2 | 3,278,011 | Corvallis Umpqua Bank 0.600% Due 03-01-12 | | 3,278,011.05 | |
| | | | | | | 3,742,749.90 | |

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

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF CORVALLIS TOTAL
 February 29, 2012

| Purchase Information | | | | | Amortization/Accretion Information | | | | |
|--|-----|---------------|---------|--------------|------------------------------------|--------------|---------------|------------|---------------|
| Quantity | Lot | Purchase Date | Price | Total Cost | Month To Date | Year To Date | Total To Date | Balance | Adjusted Cost |
| FNMA(Straight Line) | | | | | | | | | |
| FEDERAL NATL MTG ASSN 1.625% Due 10-26-15 (31398A4M1) | | | | | | | | | |
| 2,000,000 | 1 | 01-13-12 | 103.028 | 2,060,564.00 | -1,271.47 | -1,929.13 | -1,929.13 | -58,634.87 | 2,058,634.87 |
| FNMA CALLABLE(Straight Line) | | | | | | | | | |
| 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 |
| FHLB(Straight Line) | | | | | | | | | |
| FEDERAL HOME LN BKS 0.875% Due 12-27-13 (313371UC8) | | | | | | | | | |
| 3,000,000 | 1 | 11-21-11 | 100.674 | 3,020,223.00 | -765.19 | -1,583.15 | -2,612.19 | -17,610.81 | 3,017,610.81 |
| FEDERAL HOME LN BKS 1.875% Due 06-21-13 (3133XXYX9) | | | | | | | | | |
| 1,000,000 | 1 | 05-11-11 | 102.429 | 1,024,290.00 | -914.38 | -1,891.82 | -9,238.37 | -15,051.63 | 1,015,051.63 |
| Total | | | | 4,044,513.00 | -1,679.57 | -3,474.96 | -11,850.56 | -32,662.44 | 4,032,662.44 |
| FFCB CALLABLE(Straight Line) | | | | | | | | | |
| FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14 (31331KT91) | | | | | | | | | |
| 3,000,000 | 1 | 11-21-11 | 99.650 | 2,989,500.00 | 277.82 | 574.80 | 948.42 | 9,551.58 | 2,990,448.42 |
| FHLMC CALLABLE(Straight Line) | | | | | | | | | |
| 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 | 90.69 | 187.64 | 766.20 | 3,233.80 | 1,996,766.20 |
| 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 | -158.47 | -327.87 | -1,125.68 | -874.32 | 2,000,874.32 |
| Total | | | | 3,998,000.00 | -67.78 | -140.23 | -359.48 | 2,359.48 | 3,997,640.52 |
| CASH(Straight Line) | | | | | | | | | |
| CASH 0.220% Due 03-01-12 (CASH) | | | | | | | | | |
| 10,432 | 3 | 01-31-12 | 1.000 | 10,432.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,432.00 |
| Corvallis B of A 0.300% Due 03-01-12 (CBANK) | | | | | | | | | |
| 676,216 | 5 | 11-30-11 | 1.000 | 676,216.45 | 0.00 | 0.00 | 0.00 | 0.00 | 676,216.45 |



AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF CORVALLIS TOTAL
 February 29, 2012

| Purchase Information | | | | Amortization/Accretion Information | | | | | |
|--|-----|---------------|-------|------------------------------------|------------------|------------------|-------------------|-------------------|----------------------|
| Quantity | Lot | Purchase Date | Price | Total Cost | Month To Date | Year To Date | Total To Date | Balance | Adjusted Cost |
| 3,280,277 | 6 | 02-29-12 | 1.000 | 3,280,276.92 | 0.00 | 0.00 | 0.00 | 0.00 | 3,280,276.92 |
| 3,956,493 | | | | 3,956,493.37 | 0.00 | 0.00 | 0.00 | 0.00 | 3,956,493.37 |
| Total | | | | 3,966,925.37 | 0.00 | 0.00 | 0.00 | 0.00 | 3,966,925.37 |
| POOL(Straight Line) | | | | | | | | | |
| OREGON STATE POOL 0.500% Due 03-01-12 (ORPOOL) | | | | | | | | | |
| 23,526,035 | 4 | 12-31-11 | 1.000 | 23,526,034.78 | 0.00 | 0.00 | 0.00 | 0.00 | 23,526,034.78 |
| GRAND TOTAL | | | | 42,585,537.15 | -2,740.99 | -4,969.52 | -13,190.75 | -79,386.25 | 42,572,346.40 |

*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 01-31-12 To 02-29-12

| Security Symbol | Description | Beginning Accrued Interest | Purchased Interest | Sold Interest | Interest Received | Earned Interest | Ending Accrued Interest |
|--------------------|--|----------------------------|--------------------|---------------|-------------------|-----------------|-------------------------|
| AGENCY | | | | | | | |
| AGENCY BULLET | | | | | | | |
| FHLB 3133XXYX9 | FEDERAL HOME LN BKS 1.875% Due 06-21-13 | 2,083.33 | 0.00 | 0.00 | 0.00 | 1,458.33 | 3,541.67 |
| 313371UC8 | FEDERAL HOME LN BKS 0.875% Due 12-27-13 | 2,479.17 | 0.00 | 0.00 | 0.00 | 2,041.67 | 4,520.83 |
| | | <u>4,562.50</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>3,500.00</u> | <u>8,062.50</u> |
| FNMA 31398A4M1 | FEDERAL NATL MTG ASSN 1.625% Due 10-26-15 | 8,576.39 | 0.00 | 0.00 | 0.00 | 2,527.78 | 11,104.17 |
| | | <u>8,576.39</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>2,527.78</u> | <u>11,104.17</u> |
| | AGENCY BULLET Total | <u>13,138.89</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>6,027.78</u> | <u>19,166.67</u> |
| AGENCY CALLABLE | | | | | | | |
| FNMA 3135G0DF7 | FEDERAL NATL MTG ASSN 0.700% Due 09-19-14 | 5,133.33 | 0.00 | 0.00 | 0.00 | 1,088.89 | 6,222.22 |
| | | <u>5,133.33</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>1,088.89</u> | <u>6,222.22</u> |
| FHLMC 3134G2SL7 | FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13 | 6,006.94 | 0.00 | 0.00 | -6,250.00 | 972.22 | 729.17 |
| 3134G2PM8 | FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14 | 2,222.22 | 0.00 | 0.00 | 0.00 | 1,944.44 | 4,166.67 |
| | | <u>8,229.17</u> | <u>0.00</u> | <u>0.00</u> | <u>-6,250.00</u> | <u>2,916.67</u> | <u>4,895.83</u> |



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
From 01-31-12 To 02-29-12

| Security Symbol | Description | Beginning Accrued Interest | Purchased Interest | Sold Interest | Interest Received | Earned Interest | Ending Accrued Interest |
|-----------------------|---|----------------------------|--------------------|---------------|-------------------|-----------------|-------------------------|
| FFCB 31331KT91 | FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14 | 4,258.33 | 0.00 | 0.00 | 0.00 | 1,703.33 | 5,961.67 |
| | | 4,258.33 | 0.00 | 0.00 | 0.00 | 1,703.33 | 5,961.67 |
| | AGENCY CALLABLE Total | 17,620.83 | 0.00 | 0.00 | -6,250.00 | 5,708.89 | 17,079.72 |
| | AGENCY Total | 30,759.72 | 0.00 | 0.00 | -6,250.00 | 11,736.67 | 36,246.39 |
| CASH | | | | | | | |
| CASH & EQUIVALENTS | | | | | | | |
| CASH | | | | | | | |
| CASH | CASH 0.220% Due 03-01-12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BANK DEPOSITS | | | | | | | |
| CBANK | Corvallis B of A 0.300% Due 03-01-12 | 0.00 | 0.00 | 0.00 | -147.69 | 147.69 | 0.00 |
| CBANK2 | Corvallis Umpqua Bank 0.600% Due 03-01-12 | 0.00 | 0.00 | 0.00 | -2,265.87 | 2,265.87 | 0.00 |
| | | 0.00 | 0.00 | 0.00 | -2,413.56 | 2,413.56 | 0.00 |
| | CASH & EQUIVALENTS Total | 0.00 | 0.00 | 0.00 | -2,413.56 | 2,413.56 | 0.00 |
| WA STATE POOL | | | | | | | |
| STATE INVESTMENT POOL | | | | | | | |
| POOL | WA STATE POOL 0.139% Due 03-01-12 | 0.00 | 0.00 | 0.00 | -9,630.88 | 9,630.88 | 0.00 |
| | | 0.00 | 0.00 | 0.00 | -9,630.88 | 9,630.88 | 0.00 |
| | WA STATE POOL Total | 0.00 | 0.00 | 0.00 | -9,630.88 | 9,630.88 | 0.00 |



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
 From 01-31-12 To 02-29-12

| Security Symbol | Description | Beginning Accrued Interest | Purchased Interest | Sold Interest | Interest Received | Earned Interest | Ending Accrued Interest |
|------------------------|--|-----------------------------------|---------------------------|----------------------|--------------------------|------------------------|--------------------------------|
| OR STATE POOL | | | | | | | |
| STATE INVESTMENT POOL | | | | | | | |
| ORPOOL | OREGON STATE POOL 0.500% Due 03-01-12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| OR STATE POOL Total | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| CASH Total | | 0.00 | 0.00 | 0.00 | -12,044.44 | 12,044.44 | 0.00 |
| TOTAL PORTFOLIO | | 30,759.72 | 0.00 | 0.00 | -18,294.44 | 23,781.11 | 36,246.39 |

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

| Investment/Issuer Types | | | Other | | |
|--------------------------------|--------------------------|--------|--|-------|-------------------------------|
| 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
February 2012**

| | <u>Receipts (1)</u> | <u>Disbursements (2)</u> | <u>Net</u> |
|--------------------|-----------------------|---------------------------|-------------------------|
| Actual Activity | 5,630,767 | 6,241,274 | (610,507) |
| Projected Activity | <u>5,327,137</u> | <u>7,614,962</u> | <u>(2,287,825)</u> |
| Difference | <u>303,630</u> | <u>(1,373,688)</u> | <u>1,677,318</u> |

(1) Receipts include deposits and interest received.

Receipts are greater than budget in February mostly due to Sustainability Incentive Fee (SIF) and Public Works Utility Metered Revenue receipts coming in higher than anticipated in comparison to budget for the month.

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

Disbursements continue to be lower than budget in the areas of Salaries & Wages and General Services as the City continues to see a cost savings due to the number of vacancies it holds along with several capital improvement projects being postponed to future years. City Loans are also lower than budget from spending variances in the Community Development Revolving Fund when compared to targeted cash flow for February, based on slower than anticipated timing of program loans issued year-to-date, as well as current year carryover balancing adjustments made based on higher than anticipated prior year spend down.

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 February 2012

| Fund | Fund Name | Month's Avg Cash Balance | Interest Distributed | Fund | Fund Name | Month's Avg Cash Balance | Interest Distributed |
|--------------|---------------------------------|---|---------------------------------|-------------|-----------------------------|---|---------------------------------|
| 101 | General | 2,507,686.96 | 1,227.57 | 460 | Davidson Library | 5,935.84 | 2.96 |
| 201 | Street | 730,299.10 | 352.54 | 501 | Water | 1,067,729.90 | 560.63 |
| 208 | Street SDC | 1,898,115.38 | 950.33 | 502 | Water Timber | 376,156.02 | 145.15 |
| 210 | Parks & Recreation | 2,051,760.67 | 1,083.26 | 508 | Water SDC | 4,318,973.55 | 2,395.69 |
| 211 | Parks & Recreation - Aquatics | 248,466.57 | 135.25 | 509 | Water Construction | 523,295.95 | 20.88 |
| 212 | Open Space | 94,131.70 | 47.49 | 520 | Wastewater | 3,437,480.46 | 1,689.39 |
| 218 | Parks SDC | 1,740,295.34 | 874.66 | 528 | Wastewater SDC | 7,103,059.70 | 115.59 |
| 220 | 911 | 696,901.71 | 350.41 | 529 | Wastewater Construction | 273,512.31 | 3,588.23 |
| 230 | Development Services | 1,331,171.92 | 690.50 | 540 | Storm Water | 1,611,399.14 | 827.99 |
| 240 | Fire & Rescue | 2,935,084.91 | 1,630.80 | 548 | Storm Water SDC | 51,563.82 | 25.58 |
| 250 | Comm Dev Revolving | 57,436.26 | 11.47 | 549 | Storm Water Construction | 59,599.95 | 14.21 |
| 260 | Parking | 1,033,419.19 | 517.66 | 560 | Airport | 471,683.81 | 236.63 |
| 270 | Transit | 468,894.34 | 234.67 | 569 | Airport Construction | 29,408.45 | 14.35 |
| 290 | Library | 2,681,557.85 | 1,457.67 | 610 | Fleet Maintenance | 71,500.05 | 33.60 |
| 291 | Library 2010 | 433,436.30 | 218.75 | 615 | Facility Maintenance | 224,604.96 | 109.98 |
| 301 | Capital Improvement | 1,004,334.70 | 516.74 | 620 | Technology & Communications | 697,018.44 | 350.84 |
| 401 | General Obligation Debt Service | 1,781,919.54 | 896.80 | 625 | Administrative Services | 505,691.06 | 253.50 |
| | | | | 630 | Risk Management | 953,933.62 | 490.60 |
| Total | | | | | | 43,477,459.47 | 22,072.37 |

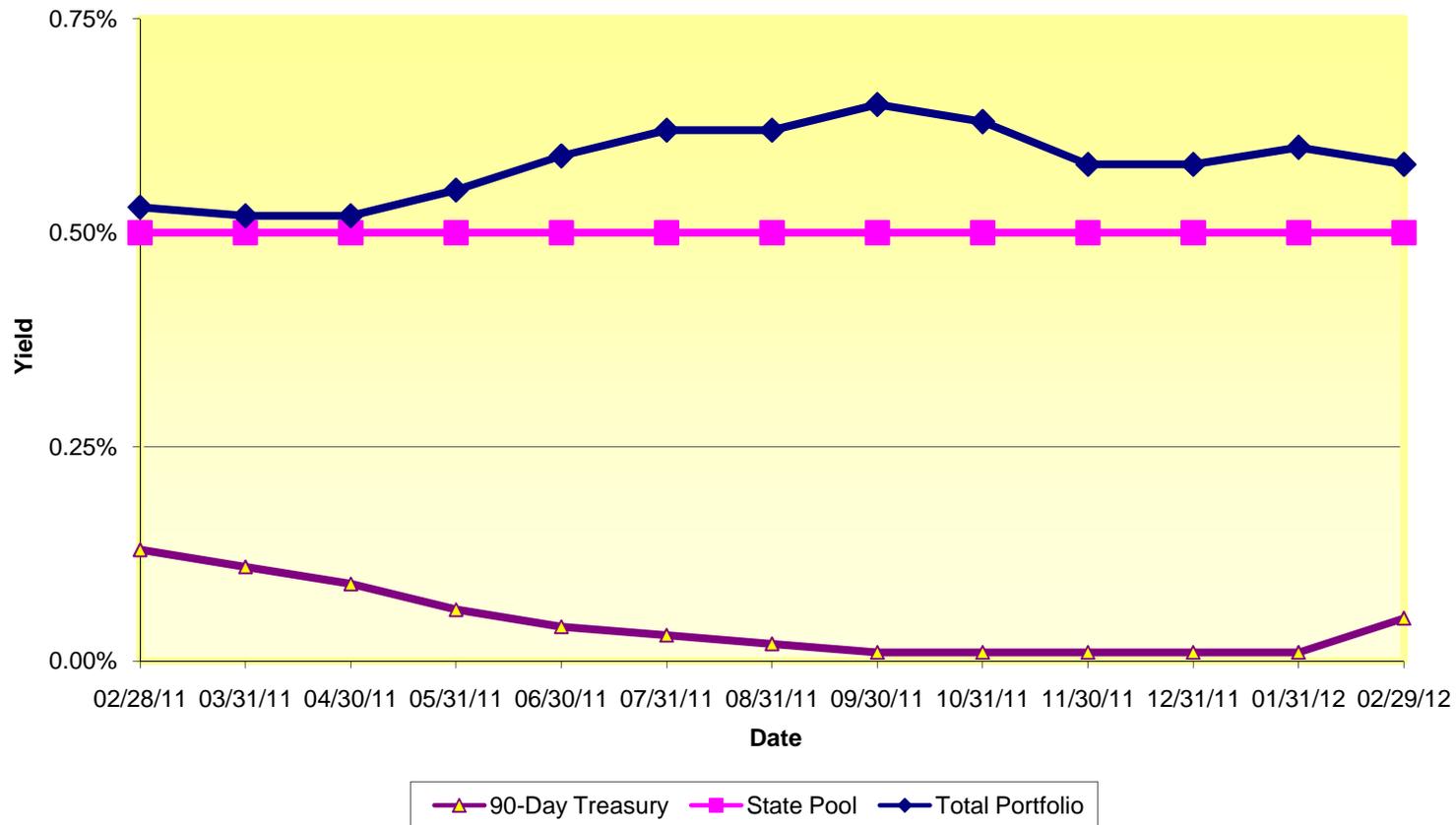
Accrual accounting on investments was implemented in August 2011. The interest distributed will equal the monthly interest income accrual, net of any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

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 February 2011 - February 2012

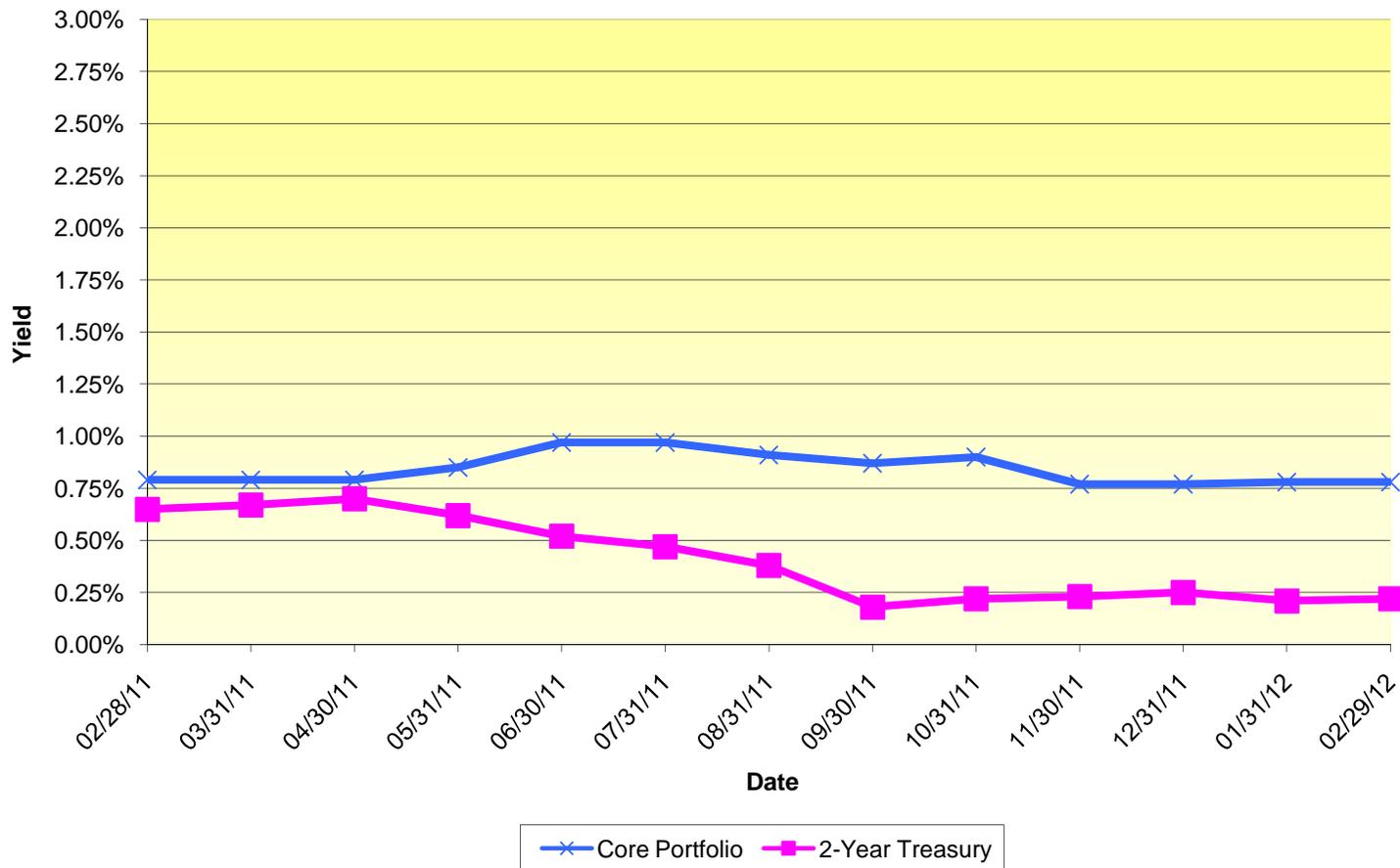




City of Corvallis

Core Portfolio vs. Benchmark

February 2011- February 2012





City of Corvallis Cash & Investments

