

CITY OF CORVALLIS

Investment Council

Treasury Report

June 2012

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

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INVESTMENT COUNCIL MEETING

**August 2, 2012
Madison Avenue Meeting Room
Thursday - 7:30 am**

*****AGENDA*****

- I. Approve Minutes of Previous Meeting
- May 3, 2012
- II. Fiscal Year 2011-2012 Fourth Quarter Review
- Quarterly Portfolio Summary
- III. Annual Investment Policy Review
- IV. Open Discussion

*****Next Meeting – November 8, 2012 - Thursday 7:30 am*****

DRAFT
CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
MAY 3, 2012
MINUTES

The City of Corvallis Investment Council meeting was called to order at 7:31 a.m. on May 3, 2012, in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

Present: Jim Patterson, Mark O'Brien, Scott Fewel, Bill Mercer, Nancy Brewer, Janet Chenard, Staci Voight; Guest - Financial Advisor: Deanne Woodring of Davidson Fixed Income Management
 (Minutes transcribed from recording by Staci Voight)

Absent: None

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held for Further Review	Recommendations
I. Approval of Minutes from February 2, 2012			Approved as presented
II. Fiscal Year 2011-2012 Third Quarter Review	X		
III. Annual Investment Policy Review	X		
IV. Davidson Fixed Income Management, Inc.	X		
V. Open Discussion	X		
IV. Adjournment – 7:52 a.m.			

CONTENT OF DISCUSSION

I. APPROVAL OF MINUTES

City Manager Jim Patterson invited any corrections to the minutes from the February 2, 2012 meeting. None being received, the minutes were approved as submitted.

II. FISCAL YEAR 2011-2012 THIRD QUARTER REVIEW

Treasury Accountant Staci Voight presented the Third Quarter Portfolio Summary (Attachment A). In looking at the ending balances from December 2011 to March 2012, cash saw a net decrease of about \$3.8 million and investments had a net increase of \$2 million, which was due to a purchase of a \$2 million security on January 17, 2012, maturing in October 2015. Overall the ending portfolio balance was just under \$42 million which is similar to last fiscal year's portfolio balances at the same time. Comparing with FY 2009-2010, when cash balances declined, current year balances are creeping back up mostly due to the operating levy dollars that have come in. With the recent \$2 million purchase in

investment activity, the ending core investment balance was \$15 million, which is the balance that the City had targeted to reach with the assistance of Investment Advisor Davidson Fixed Income Management, Inc. (DFIM). Looking at book yields, the Total Portfolio went up by 7 basis points, and the Core Portfolio went up by 1 basis point. The State Pool increased by 10 basis points on March 22nd to 0.60%. The 2-Year Treasury, which is used as a benchmark, increased by 3 basis points.

Ms. Voight mentioned that the City completed conversion activities to transition banking services from Bank of America to Wells Fargo Bank on March 20, 2012, based on the outcome of the banking services RFP. Staff are currently working to close all Bank of America accounts and services by June 30, 2012. With no further questions, Mr. Patterson announced the next item on the agenda.

III. ANNUAL INVESTMENT POLICY REVIEW

Ms. Voight referred to the staff memo (Attachment B) that all Investment Council members had received prior to the meeting, requesting the postponement of the annual Investment Policy review to August of this year. Current policy states that annual review and re-adoption should take place in February, but staff recommends waiting for the annual Oregon Short Term Fund Board (OSTFB) meeting in July, when OSTFB will be providing a new and improved sample policy. City Attorney Scott Fewel asked if the review would consist of staff revising the policy in order to comply with state law and best practices, and if those revisions would be brought to the Investment Council. Ms. Voight confirmed that is what would take place. Budget & Financial Planning Manager Janet Chenard commented that last year's review was quite extensive with the incorporation of the new Financial Advisor's recommendations and she doesn't anticipate as many substantive changes, although possibly some related to best practices. She also noted that Investment Council has the opportunity during these reviews to provide any additional feedback or recommendations based upon their expertise. Investment Advisor Deanne Woodring added that since she sits on both the OSTFB and Government Finance Officers Association (GFOA) boards, she had already incorporated all the best practices from both boards' sample policies into the City's policy last year, so changes this year really should be minimal. Staff will submit revision recommendations to Investment Council prior to the August quarterly meeting, so that discussion can take place at that time. With no further comments, Investment Council members approved the recommendation to postpone the annual review.

IV. DAVIDSON FIXED INCOME MANAGEMENT, INC.

Ms. Woodring presented the Investment Council with the annual review of the City's portfolio since last May 2011. The goals were to diversify the City's exposure from the State Pool and develop an investment strategy. At the time of contract execution, interest rates had fallen very low, but Ms. Woodring advised to move forward as planned and begin the investment laddering strategy, which worked well for the City in hindsight. Ms. Woodring supplied two graphs (Attachment C); the first shows a five year history of the 2-Year Treasury Note rate. The rate has gone from a 5% yield in 2007 to its current level of 0.25%. This decline has been driven primarily by the government easing on short term rates to help boost the economy. Historically a low rate cycle seldom lasts longer than two and a half years; however, this current cycle has already lasted three years. DFIM, with help from City staff, selected and attained a core portfolio amount of \$15 million, based upon an amount of funds not expected to be needed for liquidity purposes. The Total Portfolio yield is currently at 0.78%, which is higher than the State Pool average of 0.5%. The City's net unrealized gain for the year was \$33,000. Mr. Fewel asked about the meaning of these gains. Ms. Woodring responded that GASB 31 requires a mark to market annually for financial reporting purposes, and it demonstrates appropriate due diligence to track market values ongoing so there are no surprises should an investment liquidation become necessary, even though it is not anticipated that the City would ever be forced into such a position. The City's portfolio is very well diversified by issuer

name, and Ms. Woodring feels very comfortable with the spread since all agency securities are virtually equal in risk.

With regard to the recent yield increase for the State Pool, Ms. Woodring explained that all local government had exposure to the losses that were incurred by the Lehman bonds back in 2008 through the LGIP holdings of same. Since that time, the State created a reserve account to aid in recouping the losses, and as of March 2012 all losses had been recovered. This allowed the State to increase the LGIP yield to 0.6%.

Finance Director Nancy Brewer asked about an “intermediate fund” she had heard the State is creating which is to be extended to local governments. Ms. Woodring responded that the Treasurer’s Office is planning to create a fund that would carry a floating net asset value (NAV), which effectively produces a middle tier investment vehicle that would be earning what the City’s own portfolio is yielding now – i.e., about 0.7%. This fund would have much more corporate exposure. The Treasurer’s Office felt the need to have such a fund in order to better manage the monies of the State. It is an alternative investment opportunity to consider, but Ms. Woodring feels it is more appropriate for a city the size of Corvallis to control its own investments. This new fund would take on more risk than what the City has established, without commensurate incremental gain. She will keep Investment Council posted on further developments in this regard.

Ms. Brewer commented on the second graph that Ms. Woodring supplied, which depicts a somewhat volatile looking one-year history of the 2-year Treasury Note yield; however rates actually moved less than 50 basis points, or 0.5%, through the whole year (descending from approximately 0.6% a year ago to the current level of 0.25%, passing through a low point of 0.155% in September 2011). Financial markets appear to be predicting this range of returns for the next several years now. It was noted that as soon as the City began working with DFIM, the rate deteriorated significantly. Ms. Woodring stated that the disciplined strategy being employed has nevertheless worked in the City’s favor; staff targeted \$15 million so this amount will continue to be maintained as the core investment balance until/unless it makes sense to re-evaluate.

III. OPEN DISCUSSION

There was no further discussion.

IV. ADJOURNMENT

The meeting was adjourned at 7:52 a.m.

**City of Corvallis
Investment Council
May 3, 2012**

Quarterly Portfolio Summary for the Quarter Ending 3/31/2012:

	Treasury Report Pg. 5 <u>December 2011</u>	Treasury Report Pg. 11 <u>March 2012</u>	<u>Change</u>
Cash			
Petty Cash	\$10,392	\$10,582	\$190
Checking	\$1,008,968	\$913,092	-\$95,876
Money Market	\$3,276,288	\$3,280,277	\$3,989
State Pool (LGIP)*	\$26,455,864	\$22,712,714	-\$3,743,150
*ORS maximum \$43,889,508			
Cash - Total	\$30,751,512	\$26,916,665	-\$3,834,847
Investments - Total	\$13,000,000	\$15,000,000	\$2,000,000
Portfolio - Total	\$43,751,512	\$41,916,665	-\$1,834,847

Investment Activity			
	<u>Description</u>	<u>Maturity/Call Date(s)</u>	<u>Par Value</u>
Purchase - 1/17/12	FNMA 1.625%	10/26/2015	\$2,000,000
		Net Change in Investments	\$2,000,000

	Treasury Report Pg. 14-15 <u>December 2011</u>	Treasury Report Pg. 21-22 <u>March 2012</u>	<u>Change</u>
Book Yields			
Total Portfolio ¹	0.58	0.65	0.07
Core Portfolio ²	0.77	0.78	0.01
State Pool (LGIP)	0.50	0.60	0.10
2 Year Treasury	0.25	0.28	0.03
¹ Total City Cash & Investments			
² Invested Portion of City Portfolio			

Other Information:

The City converted banking activities to Wells Fargo Bank on 3/20/12.
Staff plans to close Bank of America accounts by 6/30/12.

May 2, 2012

To: Investment Council
From: Staci Voight, Treasury Accountant 
Subject: Annual Investment Administrative Policy Review

Issue

Per ORS 294.135(a) the City's Investment Administrative Policy must be reviewed and re-adopted annually. The City's policy currently states this should be done by the Investment Council in February of each year.

Background

Last year, staff recommended postponing the February review of the investment policy until an Investment Advisor contract was secured. Part of the City's contractual arrangement with the Investment Advisor is to engage their expertise in the review of an investment policy. Last year's review was completed in August 2011 after Davidson Fixed Income Management, Inc. (DFIM) assisted staff with extensive best practice modifications to the procedure and submission of same to the Oregon Short-Term Funding Board (OSTF).

Recommendation

Since it is still within one year of the last review and given the significant changes made in the last round, staff recommends postponing the review until the August 2012 Investment Council meeting. At its annual meeting this coming July, the OSTFB will be releasing its latest sample investment policy. Postponing review until the August Investment Council meeting will allow staff to consider incorporation of the latest OSTFB recommendations. Staff also plans, on the advice of DFIM, to change the policy language to state "annual" review, rather than specifying a particular month, so that we may accommodate events such as the annual OSTFB meeting. Staff will submit any proposed policy revisions to Investment Council prior to the August 2012 Investment Council meeting.

Review and Concur:



Nancy Brewer, Finance Director





DAVIDSON FIXED INCOME MANAGEMENT, INC.
QUARTER ENDING JUNE 30, 2012

MARKET OVERVIEW

This quarter's market movements were primarily driven by three factors:

1. Greece - It seems strange that the Greek economy that is no larger than the State of Washington and accounts for less than 1% of the global trade can play such havoc on the international markets. It is all tied to fear and concern that while it may be manageable in Greece, if it moves on to Spain and Italy, the financial damage may be extremely unstable for banks around the globe.
2. Moody's downgrade of global banks - Moody's announced in February that it would be reviewing the top tier of global banks both in the United States and in Europe. It was highly anticipated in the market that most of the banks would be downgraded and the pricing of this occurred months ago, therefore, the pricing depreciation was minimal when the downgrades actually occurred. When the market is given time to adjust and digest significant information it can move in an orderly fashion.
3. "Operation twist" was extended in June – The Federal Reserve extended its purchases of longer-term Treasury securities with the proceeds of the sale of short-term Treasuries, also, in accordance with expectations. The Fed has limited options to influence rates, and this alternative has been working, therefore, extending was a relative easy choice. The risk of this action to investors is the timing when the fed decides to reverse the twist, they eventually, will need to do a double reverse operation twist, but it is not likely to occur in the near future.

Upcoming actions to watch for: The upcoming presidential election and the risk of the "fiscal cliff" created by expiring tax and government spending cuts scheduled for 2013.

Fed gets more Twisted: The FOMC left rates unchanged and extended the Twist by \$267 billion through year end, according to the policy statement. The Fed added that it will buy in the 6-30 year maturities at the "current pace" and will sell or redeem an "equal amount" of debt maturing 3-year or less. It expects "This continuation of the maturity extension program should put downward pressure on longer-term interest rates and help to make broader financial conditions more accommodative."

On inflation: The Fed flip-flopped on inflation, which likely gave it room to extend the Twist, as they noted "inflation has declined" rather than climbed thanks to "lower prices of crude oil and gasoline." In the second paragraph they entirely eliminated "the increase in oil and gas prices earlier this year is expected to affect inflation only temporarily," as it was no longer relevant. However, thanks to the deterioration in financial conditions in Europe and consequent growth downgrades, the Fed was able to continue to claim that "inflation over the medium-term will run at or below the rate that it judges most consistent with its dual mandate."

Summary of Economic Projections showed downward GDP growth revisions that were a bit larger than expected, alongside aggressive downward revisions in the official PCE chain price estimates that likely assume further commodity price declines this year -- presumably due to marked-down

forecasts for world growth. The PCE core chain price figures were trimmed a bit despite recent firmness, presumably on the assumption that headline weakness and slower GDP growth will trickle-down to reduced core price pressure. The jobless rate estimates were raised aggressively, due both to the expected impact of recent slower job growth and likely additional upward pressure from the big downward GDP adjustments.

Policy horizon intact: *"To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."*

Source: Action Economics

<u>Indicator</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 est</u>	<u>2013 est</u>
Real GDP	0.40	-2.40	2.80	1.70	2.10	2.20
CPI (YOY)	3.85	-0.30	1.60	3.17	2.00	2.00
Unemployment	5.80	9.30	9.70	9.00	8.20	7.90

Source: Bloomberg Fed Forecasts

Composite Economist's Rate Projections: No change is projected for overnight rates through Q2 2013. Rates in the 2 year and 10 year are not expected to rise until the end of the year. Each quarter these projections continue to move toward lower interest rates for a longer period of time.

<u>Maturity</u>	<u>2010</u> <u>Ending</u>	<u>2011</u> <u>Ending</u>	<u>Q1</u> <u>2012</u>	<u>Q2</u> <u>2012</u>	<u>Q3</u> <u>2012 est</u>	<u>Q4</u> <u>2012 est</u>	<u>Q1</u> <u>2013 est</u>	<u>Q2</u> <u>2013 est</u>
Fed Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2 Year	0.60	0.24	0.33	0.30	0.30	0.38	0.48	0.52
10 Year	3.33	1.92	2.21	1.65	1.78	1.94	2.12	2.30

Source: Bloomberg ECFC

STRATEGY :

- Keep fully invested with minimized balances in liquidity.
- Hold durations at the benchmark targets.
- Work the price volatility when investing



CHANGES IN THE TREASURY MARKET:

	<u>12/31/10</u>	<u>12/31/11</u>	<u>3/31/12</u>	<u>6/30/12</u>	<u>Change Last Qtr</u>
3-month bill	0.13	0.01	0.06	0.08	+0.02
6-month bill	0.18	0.05	0.13	0.16	+0.03
2-year note	0.59	0.25	0.32	0.30	-0.02
5-year note	2.00	0.87	1.03	0.72	-0.31
10-year note	3.30	1.95	2.20	1.65	-0.55

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	\$23,087,366.54	60.00%	60.4%	0.43%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$15,115,279.00	40.00%	39.6%	-0.43%
Total			\$38,202,645.54			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	60%	Yes
Under 1 Year	> 25%	63%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.90	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	\$38,202,645.54	Yes
Federal Agency and Agency Sponsored	100%	40%	39.57%	\$15,115,279.00	5 Years	\$23,087,366.54	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	10.88%	\$4,155,905.07		\$5,394,756.32	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$3,820,264.55	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$3,820,264.55	Yes
State Obligations (OR,WA, AA or better)	10%	5%	0.00%	\$0.00	5 Years	\$3,820,264.55	Yes
State Pool	ORS Maximum or 100%		49.56%	\$18,931,461.47	N/A	\$25,542,702.53	Yes
Total			100.00%	\$38,202,645.54			

ORS Maximum \$44,474,164.00

Policy : August 2011

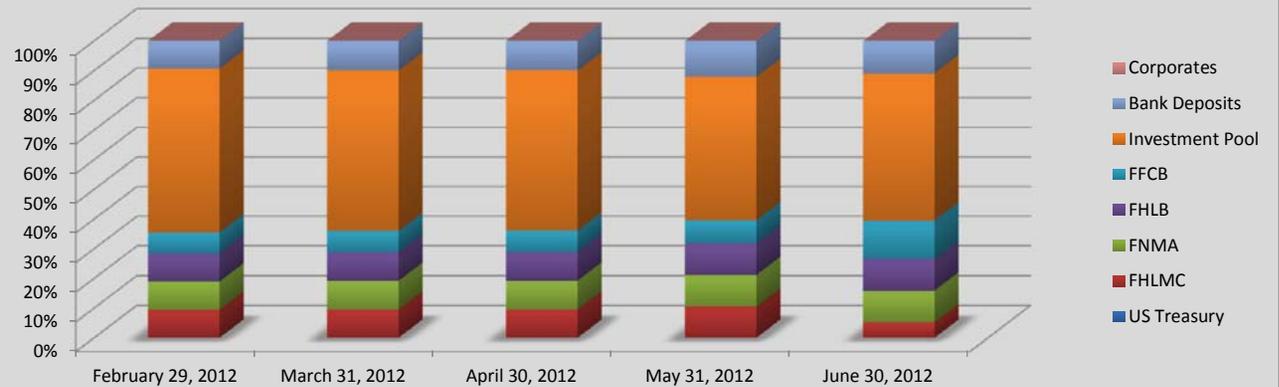
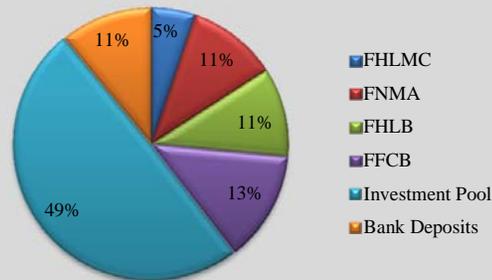
Total Asset Allocation Strategy
 (Market Values)

Commentary

A FHLMC was called this month and was reinvested into the FFCB .75% 6/14/16. The portfolio remains diversified and positioned according to the plan.

Sector	Yield	February 29, 2012	March 31, 2012	April 30, 2012	May 31, 2012	June 30, 2012	Change From Last Month
US Treasury	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLMC	0.57%	\$4,006,752.00	\$4,005,392.00	\$4,003,822.00	\$4,002,160.00	\$2,000,498.00	(\$2,001,662.00)
FNMA	0.76%	\$4,063,162.00	\$4,059,598.00	\$4,067,760.00	\$4,067,260.00	\$4,072,890.00	\$5,630.00
FHLB	0.59%	\$4,054,692.00	\$4,052,226.00	\$4,046,009.00	\$4,043,873.00	\$4,039,458.00	(\$4,415.00)
FFCB	0.81%	\$2,998,506.00	\$2,992,665.00	\$3,003,354.00	\$3,002,727.00	\$5,002,433.00	\$1,999,706.00
Investment Pool	0.60%	\$23,526,034.78	\$22,712,714.38	\$22,579,197.07	\$18,429,573.49	\$18,931,461.47	\$501,887.98
Bank Deposits	0.53%	\$3,966,925.37	\$4,203,950.84	\$4,181,226.35	\$4,623,778.13	\$4,155,905.07	(\$467,873.06)
Corporates	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	0.63%	\$42,616,072.15	\$42,026,546.22	\$41,881,368.42	\$38,169,371.62	\$38,202,645.54	\$33,273.92

Current Sector Allocation





DETAIL AMORTIZATION COST RETURN
CITY OF CORVALLIS TOTAL
 From 05-31-12 to 06-30-12

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	6,284.72	-3,054.89	0.00	3,229.83
AGENCY CALLABLE	5,843.33	214.16	2,858.51	8,916.00
CASH & EQUIVALENTS	1,888.67	0.00	0.00	1,888.67
OR STATE POOL	9,828.14	0.00	0.00	9,828.14
TOTAL	23,844.87	-2,840.73	2,858.51	23,862.64

SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF CORVALLIS TOTAL
 May 31, 2012 to June 30, 2012

	Total Portfolio
Interest Earned	23,844.87
Accretion/Amortization	-2,840.73
Realized Gain/Loss on Sales	2,858.51
Total Income on Portfolio	23,862.64
Average Daily Historical Cost	38,205,033.95
Return	0.06%
Annualized Return	0.76%
Annualized Return Net of Fees	0.76%
Weighted Duration to Maturity in Years	0.88
Weighted Days to Maturity	327



**CITY OF CORVALLIS TOTAL
PORTFOLIO HOLDINGS**

June 30, 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	101.12	0.71	101.57	0.27	1,015,653.00	468.75	1,016,121.75	4,452.29	2.7	0.97	0.97
313371UC8	3,000,000	FEDERAL HOME LN BKS 0.875% Due 12-27-13		11-21-11	100.48	0.55	100.79	0.34	3,023,805.00	218.75	3,024,023.75	9,413.26	7.9	1.48	1.48
31398A4M1	2,000,000	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15		01-13-12	102.66	0.81	103.58	0.54	2,071,622.00	5,777.78	2,077,399.78	18,336.09	5.4	3.23	3.23
3133EAUH9	2,000,000	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		06-26-12	99.98	0.75	99.92	0.77	1,998,434.00	666.67	1,999,100.67	-1,206.50	5.2	3.89	3.89
	8,000,000					0.69		0.49	8,109,514.00	7,131.94	8,116,645.94	30,995.14	21.2	2.46	2.46
AGENCY CALLABLE															
3134G2SL7	2,000,000	FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13	08-08-12	08-03-11	100.01	0.57	100.02	0.60	2,000,498.00	4,930.56	2,005,428.56	290.35	5.2	1.10	0.11
3135G0DF7	2,000,000	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14	09-19-12	09-12-11	100.00	0.70	100.06	0.67	2,001,268.00	3,927.78	2,005,195.78	1,268.00	5.2	2.19	0.22
31331KT91	3,000,000	FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14	11-21-12	11-21-11	99.72	0.85	100.13	0.67	3,003,999.00	2,372.50	3,006,371.50	12,381.82	7.9	2.37	0.39
	7,000,000					0.73		0.65	7,005,765.00	11,230.83	7,016,995.83	13,940.17	18.3	1.95	0.26
CASH & EQUIVALENTS															
CASH	10,582	CASH 0.220% Due 07-01-12		03-31-12	1.00	0.22	1.00	0.22	10,582.00	0.00	10,582.00	0.00	0.0	0.00	0.00
CBANK	193,158	Corvallis B of A 0.200% Due 07-01-12		06-30-12	1.00	0.20	1.00	0.20	193,157.63	0.00	193,157.63	0.00	0.5	0.00	0.00
CBANK2	3,287,058	Corvallis Umpqua Bank 0.610% Due 07-01-12		06-30-12	1.00	0.61	1.00	0.61	3,287,057.52	0.00	3,287,057.52	0.00	8.6	0.00	0.00
CBANK3	665,108	Corvallis Wells Fargo 0.250% Due 07-01-12		05-31-12	1.00	0.25	1.00	0.25	665,107.92	0.00	665,107.92	0.00	1.7	0.00	0.00
	4,155,905					0.53		0.53	4,155,905.07	0.00	4,155,905.07	0.00	10.9	0.00	0.00
OR STATE POOL															
ORPOOL	18,931,461	OREGON STATE POOL 0.600% Due 07-01-12		06-30-12	1.00	0.60	1.00	0.60	18,931,461.47	0.00	18,931,461.47	0.00	49.6	0.00	0.00
TOTAL	38,087,367					0.63		0.58	38,202,645.54	18,362.78	38,221,008.32	44,935.31	100.0	0.88	0.57

*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 06-01-12 To 06-30-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Buy long							
06-26-12	06-29-12	3133EAUH9	2,000,000	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		1,999,640.00	HSBC
06-30-12	06-30-12	ORPOOL	18,931,461	OREGON STATE POOL 0.600% Due 07-01-12		18,931,461.47	
06-30-12	06-30-12	CBANK	193,158	Corvallis B of A 0.200% Due 07-01-12		193,157.63	
06-30-12	06-30-12	CBANK2	3,287,058	Corvallis Umpqua Bank 0.610% Due 07-01-12		3,287,057.52	
						<hr/>	
						24,411,316.62	
Deposit							
06-30-12	06-30-12	manfee		Management Fee **		1,500.00	
Interest							
06-21-12	06-21-12	3133XXYX9		FEDERAL HOME LN BKS 1.875% Due 06-21-13		9,375.00	
06-27-12	06-27-12	313371UC8		FEDERAL HOME LN BKS 0.875% Due 12-27-13		13,125.00	
06-30-12	06-30-12	ORPOOL		OREGON STATE POOL 0.600% Due 07-01-12		9,828.14	
06-30-12	06-30-12	CBANK		Corvallis B of A 0.200% Due 07-01-12		26.99	
06-30-12	06-30-12	CBANK2		Corvallis Umpqua Bank 0.610% Due 07-01-12		1,592.33	
06-30-12	06-30-12	CBANK3		Corvallis Wells Fargo 0.250% Due 07-01-12		269.35	
						<hr/>	
						34,216.81	
Deliver out long							
06-21-12		cash		Cash Account		9,375.00	
06-27-12		cash		Cash Account		13,125.00	
06-29-12		cash		Cash Account		12,235.00	
						<hr/>	
						34,735.00	

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



**CITY OF CORVALLIS TOTAL
 TRANSACTION SUMMARY**

From 06-01-12 To 06-30-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Purchased Accrued Interest							
06-26-12	06-29-12	3133EAUH9		FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		625.00	
Sold Accrued Interest							
06-29-12	06-29-12	3134G2PM8		FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14		12,500.00	
Sell long							
06-29-12	06-29-12	3134G2PM8	2,000,000	FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14		2,000,000.00	CALLED
06-30-12	06-30-12	ORPOOL	18,429,573	OREGON STATE POOL 0.600% Due 07-01-12		18,429,573.49	
06-30-12	06-30-12	CBANK	192,354	Corvallis B of A 0.200% Due 07-01-12		192,354.35	
06-30-12	06-30-12	CBANK2	3,285,465	Corvallis Umpqua Bank 0.610% Due 07-01-12		3,285,465.19	
06-30-12	06-30-12	CBANK3	470,269	Corvallis Wells Fargo 0.250% Due 07-01-12		470,268.67	
						24,377,661.70	

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF CORVALLIS TOTAL
 June 30, 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	-1,315.32	-7,278.09	-7,278.09	-53,285.91	2,053,285.91
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	-791.57	-4,802.21	-5,831.26	-14,391.74	3,014,391.74
FEDERAL HOME LN BKS 1.875% Due 06-21-13 (3133XXYX9)									
1,000,000	1	05-11-11	102.429	1,024,290.00	-948.50	-5,742.74	-13,089.29	-11,200.71	1,011,200.71
Total				4,044,513.00	-1,740.07	-10,544.95	-18,920.55	-25,592.45	4,025,592.45
FFCB(Straight Line)									
FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16 (3133EAUH9)									
2,000,000	1	06-26-12	99.982	1,999,640.00	0.50	0.50	0.50	359.50	1,999,640.50
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	287.40	1,743.56	2,117.18	8,382.82	2,991,617.18
FHLMC CALLABLE(Straight Line)									
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	-163.93	-994.54	-1,792.35	-207.65	2,000,207.65
CASH(Straight Line)									
CASH 0.220% Due 07-01-12 (CASH)									
10,582	4	03-31-12	1.000	10,582.00	0.00	0.00	0.00	0.00	10,582.00
Corvallis B of A 0.200% Due 07-01-12 (CBANK)									
193,158	8	06-30-12	1.000	193,157.63	0.00	0.00	0.00	0.00	193,157.63
Corvallis Umpqua Bank 0.610% Due 07-01-12 (CBANK2)									

*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
 June 30, 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
3,287,058	14	06-30-12	1.000	3,287,057.52	0.00	0.00	0.00	0.00	3,287,057.52
Corvallis Wells Fargo		0.250% Due 07-01-12 (CBANK3)							
665,108	2	05-31-12	1.000	665,107.92	0.00	0.00	0.00	0.00	665,107.92
Total				4,155,905.07	0.00	0.00	0.00	0.00	4,155,905.07
POOL(Straight Line)									
OREGON STATE POOL		0.600% Due 07-01-12 (ORPOOL)							
18,931,461	5	06-30-12	1.000	18,931,461.47	0.00	0.00	0.00	0.00	18,931,461.47
GRAND TOTAL				38,183,583.54	-2,931.43	-17,073.52	-25,873.31	-70,343.69	38,157,710.23

*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 05-31-12 To 06-30-12

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	8,333.33	0.00	0.00	-9,375.00	1,510.42	468.75
313371UC8	FEDERAL HOME LN BKS 0.875% Due 12-27-13	11,229.17	0.00	0.00	-13,125.00	2,114.58	218.75
		<u>19,562.50</u>	<u>0.00</u>	<u>0.00</u>	<u>-22,500.00</u>	<u>3,625.00</u>	<u>687.50</u>
FNMA							
31398A4M1	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15	3,159.72	0.00	0.00	0.00	2,618.06	5,777.78
		<u>3,159.72</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,618.06</u>	<u>5,777.78</u>
FFCB							
3133EAUH9	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16	0.00	625.00	0.00	0.00	41.67	666.67
		<u>0.00</u>	<u>625.00</u>	<u>0.00</u>	<u>0.00</u>	<u>41.67</u>	<u>666.67</u>
	AGENCY BULLET Total	<u>22,722.22</u>	<u>625.00</u>	<u>0.00</u>	<u>-22,500.00</u>	<u>6,284.72</u>	<u>7,131.94</u>
AGENCY CALLABLE							
FNMA							
3135G0DF7	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14	2,800.00	0.00	0.00	0.00	1,127.78	3,927.78
		<u>2,800.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,127.78</u>	<u>3,927.78</u>
FHLMC							
3134G2SL7	FEDERAL HOME LN MTG CORP MTN 0.625% Due 08-08-13	3,923.61	0.00	0.00	0.00	1,006.94	4,930.56



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
 From 05-31-12 To 06-30-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
3134G2PM8	FEDERAL HOME LN MTG CORP 1.250% Due 12-29-14	10,555.56	0.00	-12,500.00	0.00	1,944.44	0.00
		14,479.17	0.00	-12,500.00	0.00	2,951.39	4,930.56
FFCB 31331KT91	FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14	608.33	0.00	0.00	0.00	1,764.17	2,372.50
		608.33	0.00	0.00	0.00	1,764.17	2,372.50
	AGENCY CALLABLE Total	17,887.50	0.00	-12,500.00	0.00	5,843.33	11,230.83
	AGENCY Total	40,609.72	625.00	-12,500.00	-22,500.00	12,128.06	18,362.78
CASH							
CASH & EQUIVALENTS							
CASH							
CASH	CASH 0.220% Due 07-01-12	0.00	0.00	0.00	0.00	0.00	0.00
CBANK3	Corvallis Wells Fargo 0.250% Due 07-01-12	0.00	0.00	0.00	-269.35	269.35	0.00
		0.00	0.00	0.00	-269.35	269.35	0.00
BANK DEPOSITS							
CBANK	Corvallis B of A 0.200% Due 07-01-12	0.00	0.00	0.00	-26.99	26.99	0.00
CBANK2	Corvallis Umpqua Bank 0.610% Due 07-01-12	0.00	0.00	0.00	-1,592.33	1,592.33	0.00
		0.00	0.00	0.00	-1,619.32	1,619.32	0.00
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-1,888.67	1,888.67	0.00



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
 From 05-31-12 To 06-30-12

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 0.600% Due 07-01-12	0.00	0.00	0.00	-9,828.14	9,828.14	0.00
		0.00	0.00	0.00	-9,828.14	9,828.14	0.00
	OR STATE POOL Total	0.00	0.00	0.00	-9,828.14	9,828.14	0.00
	CASH Total	0.00	0.00	0.00	-11,716.81	11,716.81	0.00
TOTAL PORTFOLIO		40,609.72	625.00	-12,500.00	-34,216.81	23,844.87	18,362.78

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
CBANK3	Wells Fargo Bank Checking	FNMA	Federal National Mortgage Association	QE	Quantitative Easing
CD	Certificates of Deposit	ORPOOL	Local Government Investment Pool	YTM	Yield to Maturity
CP	Commercial Paper			TIPS	Treasury Inflation Protected Securities

* 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
June 2012

	Receipts (1)	Disbursements (2)	Net
Actual Activity	5,607,774	6,360,997	(753,223)
Projected Activity	8,620,184	9,216,211	(596,027)
Difference	(3,012,410)	(2,855,214)	(157,196)

(1) Receipts include deposits and interest received.

Receipts are less than budget mostly in the areas of Federal Grants and State Shared Revenues. Several projects have been postponed for the year, which delays grant dollars received, such as the Environmental Protection Agency (EPA) Climate Showcase Communities Grant. The purchase of two replacement buses has also been delayed until next year. Stated Shared Revenues are less than budgeted cash flows due to Highway and 911 shared revenues that were received in July, but will be accrued back to June.

(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 mostly due to the areas of General Services and Vehicles. General Services are significantly lower than what was cash flowed due to the carry over of several capital projects into the next year, as referenced above. The postponed replacement bus purchases account for the variance in Vehicles. Final fiscal year 2011/2012 expenditures will be disbursed in July for a total of \$1.9 million.

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 June 2012

Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed
101	General	1,972,262.75	1,301.24	460	Davidson Library	5,946.43	3.83
201	Street	964,059.68	625.83	501	Water	1,138,703.07	732.86
208	Street SDC	2,166,029.88	1,365.06	502	Water Timber	285,449.14	186.30
210	Parks & Recreation	1,499,160.34	1,010.65	508	Water SDC	4,565,676.80	2,949.01
211	Parks & Recreation - Aquatics	177,568.92	118.45	509	Water Construction	147,363.57	99.68
212	Open Space	94,300.32	61.17	520	Wastewater	3,308,886.39	2,259.00
218	Parks SDC	2,065,937.64	1,321.90	528	Wastewater SDC	7,790,602.93	139.45
220	911	578,378.38	404.33	529	Wastewater Construction	210,137.37	5,016.30
230	Development Services	1,442,991.54	894.10	540	Storm Water	1,697,364.33	1,100.22
240	Fire & Rescue	1,120,627.11	842.49	548	Storm Water SDC	68,024.07	42.65
250	Comm Dev Revolving	43,279.69	23.98	549	Storm Water Construction	(148,936.13)	(76.77)
260	Parking	1,057,700.44	685.70	560	Airport	515,725.92	334.11
270	Transit	512,220.95	344.94	569	Airport Construction	29,408.80	19.04
290	Library	1,351,602.35	978.19	610	Fleet Maintenance	63,184.10	36.45
291	Library 2010	434,213.08	281.74	615	Facility Maintenance	294,785.62	188.63
301	Capital Improvement	1,415,367.75	861.45	620	Technology & Communications	766,823.35	496.93
401	General Obligation Debt Service	(59,001.35)	406.03	625	Administrative Services	606,982.57	394.82
				630	Risk Management	849,442.09	552.32
Total						39,032,269.90	26,002.08

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.

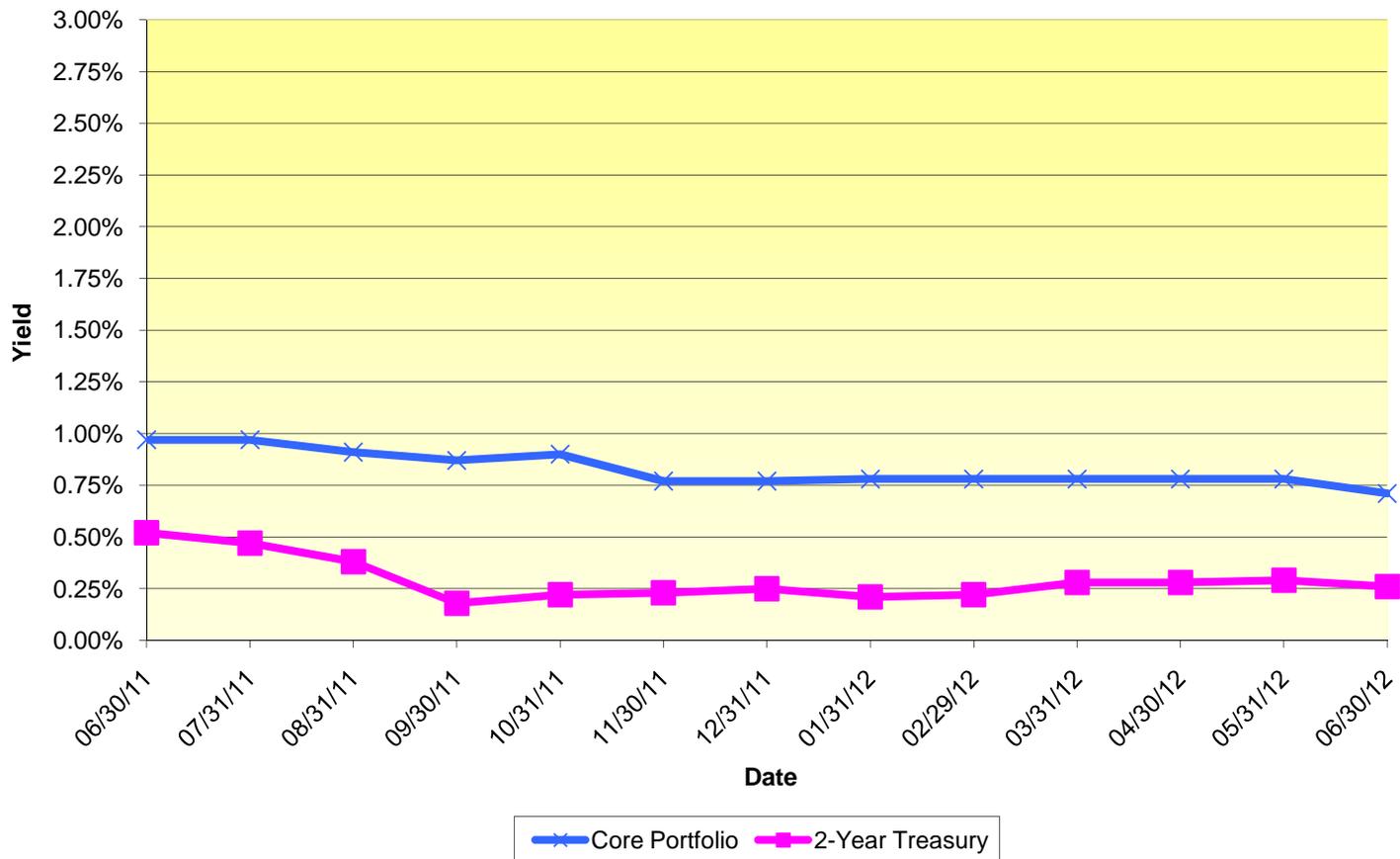


City of Corvallis Total Portfolio vs. Benchmark June 2011 - June 2012



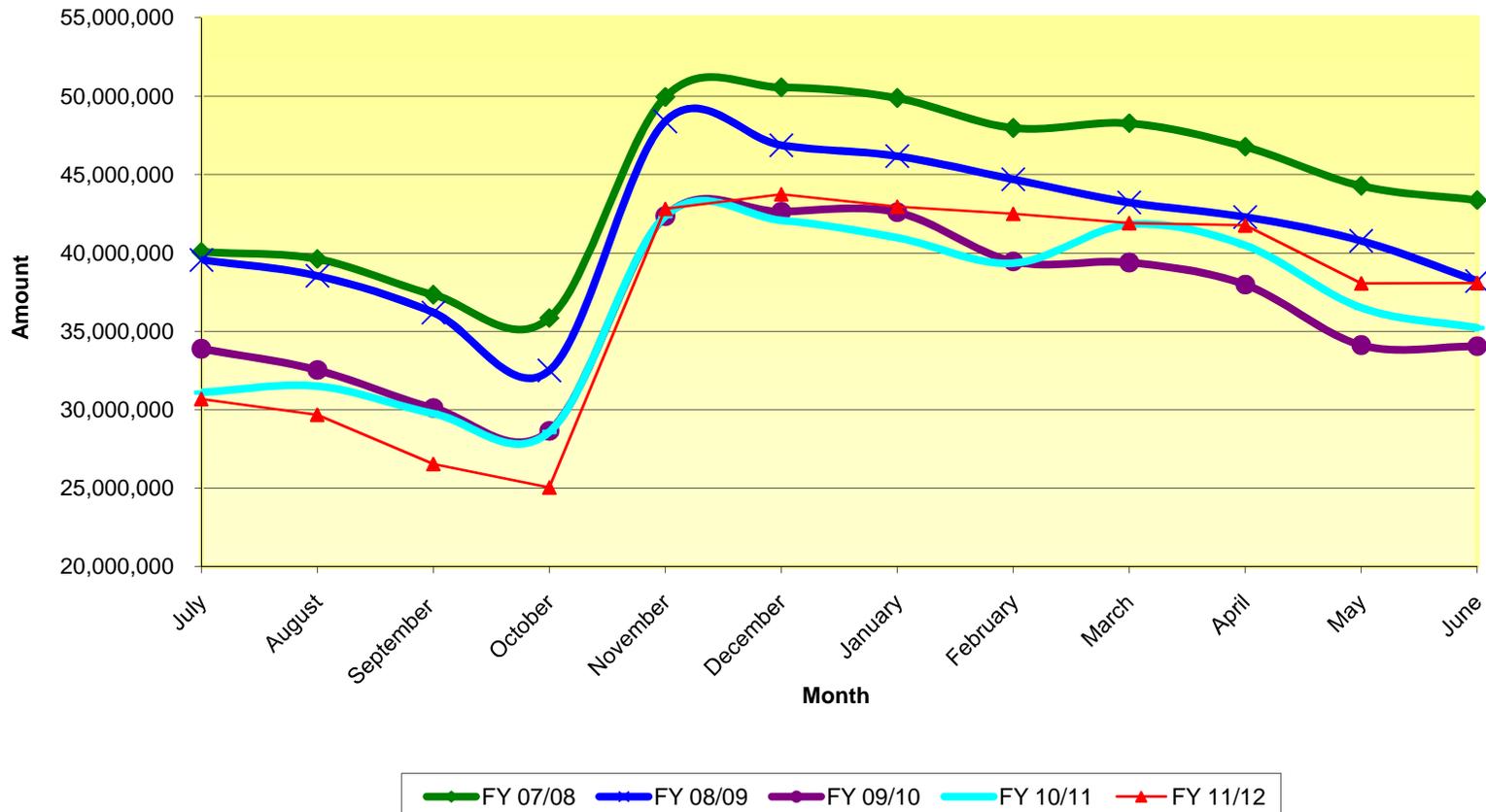


City of Corvallis Core Portfolio vs. Benchmark June 2011- June 2012





City of Corvallis Cash & Investments





City of Corvallis Cash and Investments By Quarter

