

CITY OF CORVALLIS

Investment Council

Treasury Report

September 2012

CITY OF CORVALLIS, OREGON
INVESTMENT COUNCIL
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INVESTMENT COUNCIL MEETING

**November 8, 2012
Madison Avenue Meeting Room (MAMR)
Thursday - 7:30 am**

*****AGENDA*****

- I. Approve Minutes of Previous Meeting
- August 7, 2012
- II. Fiscal Year 2012-2013 First Quarter Review
- Quarterly Portfolio Summary
- III. Open Discussion

*****Next Meeting – February 7, 2013 - Thursday 7:30 am*****

**DRAFT
CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
AUGUST 7, 2012
MINUTES**

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on August 7, 2012, in the Finance Conference Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

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

Absent: None

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held for Further Review	Recommendations
Approve Minutes of May 3, 2012			Approved as drafted.
Fiscal Year 2011-2012 Fourth Quarter Review	X		
Annual Investment Policy Review	X		
Open Discussion	X		
Adjournment – 7:32 a.m.			

CONTENT OF DISCUSSION

I. APPROVE MINUTES OF MAY 3, 2012

City Manager Jim Patterson invited any corrections to the minutes from the May 3, 2012 meeting. There being none, the minutes were approved as drafted.

II. FISCAL YEAR 2011-2012 FOURTH QUARTER REVIEW

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

The Federal Open Market Committee released in their statement on August 1, that economic activity decelerated somewhat over the first half of 2012. Growth in employment has been slow in recent months, and the unemployment rate remains elevated. Business fixed investment, household spending and the housing sector have seen signs of improvement, yet remain depressed. The Committee expects economic growth to remain moderate over the coming quarters and then pick up very gradually. To support a stronger economic recovery the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent and anticipates that conditions are likely to warrant low levels for the rate at least through late 2014.

Ms. Voight presented the Quarterly Portfolio Summary for the quarter ending June 30, 2012 (Attachment A). In looking at the balances for the fourth quarter against the third quarter, cash overall was down by about \$3.8 million, ending at just above \$23 million. Investments were kept at \$15 million. The total portfolio ended at just over \$38 million which is about \$3 million above the previous year, probably due to operating levy dollars received in the fiscal year. In investment activity, there was a maturity of \$2 million at the end of June; that was reinvested and that investment will mature in June of 2016. For book yields, the Total Portfolio went down by 2 basis points, and the Core Portfolio went down by 7 basis points. The State Pool is holding at 0.6. The 2-Year Treasury, which is used as a benchmark, went down by 2 basis points.

Ms. Voight reported that the City closed its Bank of America accounts in early July and is now banking with Wells Fargo.

Ms. Voight gave an update on the money market account at Umpqua Bank. Umpqua had historically offered 10 basis points above the State's local government investment pool. That rate had been fluctuating since last February and staff has just learned that Umpqua decided at a management meeting in January that they would not be able to continue offering 10 basis points above the pool. The City is now receiving just 1 basis point above the pool. Umpqua said they could offer 5 basis points above the pool if the City would deposit an additional \$1 million into the money market account and open a checking account. She noted that Umpqua Bank did not respond to the banking request for proposal (RFP) put out last August, so would not in any way be eligible for such an account under current policy.

Finance Director Nancy Brewer added that the City has signed a letter of potential intent to invest with OSU Federal Credit Union. This is a nonbinding statement which recognizes the desire to invest locally. She noted that Umpqua may also fit the definition of a local bank. There are other cities that have done local investment policies and staff will be looking to see what they are doing, including whether they are investing at below market rates with local banks and whether there are any conditions tied to how the banks use the funds.

Budget and Financial Planning Manager Janet Chenard said that staff is looking for guidance from the Investment Council members as to whether to stay at Umpqua Bank at the current offering of 1 basis point above the pool or fold that money back into the state pool until there is a better feel for where we are going with the local banking policy. Mr. Fewel expressed concern that Umpqua went almost a year under the policy change without notifying the City. Ms. Chenard said the contract with Umpqua states that the bank would provide five days notice of a rate change; that notice did not happen. Davidson Fixed Income Management has expressed concern with regard to the fact that Umpqua has had a lot of turnover in management which appears to have translated into a lack of communication. In discussion, Ms. Brewer reiterated, as per Ms. Voight's earlier assertion, that the City just went through a RFP process for a checking account and Umpqua did not respond. The City does not need another checking account; the question is whether to continue this relationship at what is conceivably a higher risk for lower return. Brief discussion followed.

There was general consensus within the Investment Council to take the money out of Umpqua Bank and return it to the state pool.

In further discussion about the potential of a policy on banking local, Ms. Brewer said that staff has a fiduciary responsibility to maximize returns and minimize risk. Recognizing that the City Council may determine that investing local has value from a policy perspective, staff will be looking at what other communities have done and hope to have preliminary information to share at the next Investment Council meeting. The Investment Council will probably be asked to make a recommendation to the City Council on this issue.

III. ANNUAL INVESTMENT POLICY REVIEW

Ms. Voight drew attention to the Draft Corvallis Investment Policy revisions (Attachment B). She noted that there are no substantial changes proposed this year; the revisions are mostly formatting changes and some topics have been moved around or called out in a different way.

MOTION: Mr. Mercer moved to approve the Investment Policy revisions as presented. Mr. Fewel seconded the motion and it passed unanimously.

Ms. Brewer drew attention to the Annual Compliance Memo (Attachment C), noting that the City complied with all provisions of the Investment Policies during the fiscal year 2011-2012. Mr. Fewel asked if there is auditing that establishes compliance. Ms. Chenard said that monthly reports and quarterly reports are part of the Investment Council's ability to ensure compliance, and that the auditor does an annual check of the investment portfolio. She believes the auditor also checks against the Council Investment Policies but she will confirm that. [Ms. Chenard confirmed with City Accounting staff subsequent to the meeting that the external auditors do sample for compliance with Council Financial Policies and are provided annually with a copy of the Administrative Procedures for Investments.]

IV. OPEN DISCUSSION

There was no further discussion.

V. ADJOURNMENT

The meeting was adjourned at 7:32 a.m.

**City of Corvallis
Investment Council
August 7, 2012**

Quarterly Portfolio Summary for the Quarter Ending 6/30/2012:

	Treasury Report Pg. 11 March 2012	Treasury Report Pg. 14 June 2012	Change
Cash			
Petty Cash	\$10,582	\$10,582	\$0
Checking	\$913,092	\$858,266	-\$54,826
Money Market	\$3,280,277	\$3,287,058	\$6,781
State Pool (LGIP)*	\$22,712,714	\$18,931,461	-\$3,781,253
*ORS maximum \$44,474,164			
Cash - Total	\$26,916,665	\$23,087,367	-\$3,829,298
Investments - Total	\$15,000,000	\$15,000,000	\$0
Portfolio - Total	\$41,916,665	\$38,087,367	-\$3,829,298

Investment Activity			
	Description	Maturity/Call Date(s)	Par Value
Call	FHLMC 1.25%	6/29/2012	-\$2,000,000
Purchase	FFCB 0.75%	6/14/2016	\$2,000,000
	Net Change in Investments		\$0

	Treasury Report Pg. 21-22 March 2012	Treasury Report Pg. 25-26 June 2012	Change
Book Yields			
Total Portfolio ¹	0.65	0.63	-0.02
Core Portfolio ²	0.78	0.71	-0.07
State Pool (LGIP)	0.60	0.60	0.00
2 Year Treasury	0.28	0.26	-0.02
¹ Total City Cash & Investments			
² Invested Portion of City Portfolio			

Other Information:

- Bank of America accounts were closed early July 2012.
- As of January 2012 Umpqua Bank is not offering 10 bps above the LGIP. Rates are evaluated every 90 days.

CITY OF CORVALLIS
ADMINISTRATIVE POLICY MANUAL

POLICY AREA 5 - FINANCIAL MATTERS

AP 95-5.03 **Investment Administrative Procedures**

<u>Adopted</u>	<u>December 1, 1990</u>
Revised	February 5, 2004
Reviewed	February 3, 2005
Revised	August 4, 2005
Revised	May 3, 2007
Reviewed	February 7, 2008
Revised	August 7, 2008
Revised	May 18, 2010
Revised	August 2011
Draft	August 2012

5.03.010 **Purpose**

It is the purpose of these investment administrative procedures to establish and provide guidelines for the safe and efficient management of City funds and the purchase and sale of investment instruments. The goal is to minimize risk and ensure the availability of cash to meet expenditures, while earning market rates of return by investing idle funds consistent with state and federal law and prudent investment principles.

5.03.020 **Governing Authority**

Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294.035 through 294.048, ORS 294.125 through 294.155, ORS 294.810, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended, and regulations adopted thereunder.

5.03.030 **Scope**

5.03.031 These investment administrative procedures apply to all cash-related assets included within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these administrative procedures; however, such funds are subject to the regulations established by the State of Oregon.

5.03.040 Objectives

The City's investment objectives are listed below. Safety, legality and liquidity are the primary objectives for the City, with a secondary objective of return.

- a. Safety: Preservation of capital and the protection of investment principal, by implementing diversification and risk management practices.
- b. Legality: Conformance with Federal, State, and other legal requirements.
- c. Liquidity: Maintenance of sufficient liquidity to meet operating requirements by managing cash flow requirements.
- d. Return: Attainment of a market rate of return throughout budgetary and economic cycles by implementing investment strategies.

5.03.050 Standards of Care

5.03.051 Delegation of Authority and Responsibilities

a, Governing Body

The City Council will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

b. Delegation of Authority

The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio, place purchase orders and sell orders with dealers and financial institutions, and prepare reports as required.

The Finance Director, acting by authority of the City Manager, is the Treasurer and, as such, is responsible for the daily administration of investments by the Investment Officer(s) and shall evaluate all investment opportunities with respect to these investment administrative procedures.

c. Investment Council

To assist the City Manager in carrying out the management responsibility for the investment program, the City Manager's Investment Council has been created by the City Council through the Financial Policies, Investment Policy. The Investment Council shall be composed of the City Manager, the Finance Director, the City Attorney, and a citizen of the City of proven integrity and business ability. The City

Council President, or the Council Vice President, if the Council President is unable to serve, shall serve *ex-officio* as a voting member.

The City Manager's Investment Council is responsible for advice with respect to investment decisions, activities, and the establishment of written administrative procedures for the investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.

d. Investment Adviser

The Finance Director may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Administrative Investment Policy and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City.

5.03.052 Prudence

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.

The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

5.03.053 Ethics / Conflicts of Interest

Regarding ethics and conflicts of interest, officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interest (excluding mortgage, checking, and savings accounts) in financial institutions with which they conduct business. They shall further disclose any

personal financial/investment positions that could be related to the performance of the City's investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244. Upon appointment to the Investment Council, and upon each annual review of this document, Investment Councilors will sign a statement to the effect they have read and agree to abide by this Investment Administrative Procedure and associated policies.

5.03.060 Administration and Operations

5.03.061 Safekeeping and Collateralization

- a. Safekeeping Custodial Bank: Investment securities purchased by the Finance Director will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The City may use a third-party financial institution for safekeeping and custody, as deemed appropriate. The purchase and sale of all securities will be on a delivery-versus-payment basis. The custodian shall provide the City with daily access to account balances and transaction activity.
- b. Collateralization of Repurchase Agreements: Repurchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the following adopted policy of the Oregon Investment Council:

United States Treasury Securities	102%
United States Agency Discount and Coupon Securities	102%

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed.

All repurchase agreements require a master repurchase contract with the approved broker dealers.

- c. Collateralization of Certificates of Deposits and Bank Deposits: Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.018. All depositories must be on the State of Oregon's qualified list. Additional collateral requirements may be required if the Finance Director deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasury, documentation of the financial institutions that are transacting business with the City. The City will also provide contact information to the Oregon State Treasury as required by ORS. Other investments shall be collateralized by the actual security held in safekeeping.

5.03.062 Accounting Method

The City will comply with required legal provisions and generally accepted accounting principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies, including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), as they apply to governmental entities.

Except as provided for in Section 5.03.095, all City funds are combined to make investment purchases on a "pooled basis." Each City fund owns a proportional share of the City's total investment portfolio based upon the individual fund's cash balance as a proportion of the total City cash balance. No investment is identified with a particular fund. Investments are stated at cost or amortized cost on a "pooled basis." Gains or losses from investments will be credited or charged to investment income at the time of the sale. Interest earnings are distributed to the various individual City funds according to the fund's proportional share of the total City cash balance.

5.03.063 Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

5.03.064 External Controls

An external auditor shall provide an annual independent review to assure compliance with Oregon state law and the City's policies and procedures.

5.03.070 Transaction Counterparties, Investment Advisers and Depositories

5.03.071 Qualified Institutions – Broker/Dealer and Financial Depositories

The City shall maintain a listing of all authorized broker/dealers and financial institutions which are approved for investment purposes.

- a. City - Approved Broker/Dealer List:

Any firm is eligible to apply to provide investment services to the City and will be added to the list referenced above if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director, then reviewed and approved by the Investment Council.

Selection Criteria for Broker/Dealer Approval/Removal if there is no Investment Advisory firm under contract (see part c.):

- i) Broker/dealers must have a branch located in Oregon.
- ii) The broker/dealer must provide services routinely to public entities in Oregon.
- iii) The broker/dealer must be knowledgeable of Oregon governmental investments statutes and the City of Corvallis' Investment Policy.
- iv) Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.
- v) Broker/dealers must be approved by the City of Corvallis Investment Council at the next quarterly meeting before conducting investment business with the City.
- vi) An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials to the Treasury Accountant. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.
- vii) Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.
- viii) Any broker/dealer may be removed from the approved list at any time by the Finance Director or an Investment Council member based on news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.

b. City – Financial Institution - List:

The City shall maintain a listing of all financial institutions for deposits and certificates of deposits, which are approved for investment purposes. Any firm is eligible to apply to provide investment services to the City and will be added to the list if the selection criteria are met. Additions or deletions to the list will be made by the Finance Director then reviewed and approved by the Investment Council.

- (i) Banks must be qualified public depositories as prescribed by Oregon State law (ORS 295.001 to 295.108) and must meet or exceed the requirements outlined therein.

- (ii) The bank must be knowledgeable of Oregon governmental investments statutes and the City of Corvallis' Investment Policy.

c. Investment Advisor - Approved List:

If an investment advisor is authorized to transact buys and sells on behalf of the City, the advisor's dealer list will be provided to the Finance Director and Investment Council for review and approval, prior to being added to the City's authorized list. The City has the ability to approve or deny broker/dealers from the advisor's list at will, and not necessarily subject to criteria in part a. above, and the advisor will provide an updated list annually. Buys and sells may be transacted with any dealers on the advisor's list once approved, until/unless removed.

5.03.072 Investment Advisers

1. An Investment Advisor may be selected by conducting a process of due diligence.

- i. The following items are required for the approved Investment Advisors:

- (i.)The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;
- (ii.)All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);
- (iii.)All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed by the state of Oregon;
- (iv.)An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by federal or state regulators.

- ii. The Investment Officer(s) will conduct at least annual reviews of engaged Investment Advisors to determine their continued eligibility within the guidelines of this policy.

- iii. Should the City decide to seek or renew investment advisory services, it shall be done through a Request for Proposal (RFP) process a minimum of every five years.

5.03.080 Authorized and Suitable Investments

5.03.081 Legal Investments

All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (*Investment of surplus funds of political subdivisions; approved investments*), ORS 294.040 (*Restriction on investments under ORS 294.035*), ORS 294.135 (*Investment maturity dates*), ORS 294.145 (*Prohibited conduct for custodial officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement*), and ORS 294.805 to 294.895 (*Local*

Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

5.03.082 Suitable Investments (Specific Types)

TYPE	DEFINITION
U. S Treasury Obligation	Direct obligations of the United States Treasury whose payment is guaranteed by the United States. [ORS 294.035(3)(a)]
GSE- Agency Obligations	US Government Agencies, Government Sponsored Enterprises (<i>GSEs</i>), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (<i>FNMA</i>), the Federal Home Loan Mortgage Corporation (<i>FHLMC</i>), Federal Home Loan Banks (<i>FHLB</i>), and the Federal Farm Credit Bureau (FFCB). [ORS 294.035(3)(a)]
Commercial Paper	Commercial Paper that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor’s and Aa3 by Moody’s
Local Government Investment Pool	State treasurer's local short-term investment fund up to the statutory limit per ORS 294.810
Certificates of Deposit/ Bank Deposit/Savings Accounts	Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. [ORS 294.035(3)(d)]

TYPE	DEFINITION
Municipal Obligations	<p>Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term rating of AA or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [ORS 294.035(3)(b)]</p> <p>Lawfully issued debt obligations of the States of Oregon and Washington and political subdivisions of those states if the obligations have a long-term rating of AA or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [ORS 294.035(3)(c)]</p>
Bankers Acceptance	<p>A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose short-term letter of credit rating is in the highest category [ORS 294.035(3)(h)(A)]</p>

5.03.090 Investment Parameters

5.03.091 Investment Diversification

The Finance Director will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss and varying maturity length to ensure availability of funds to meet cash needs.

Diversification Constraints on Total Holdings:		
Issuer Type	Maximum Holdings	% Maximum Per Issuer
US Treasury Obligations	100%	
US Agency (GSE) Securities	100%	
- FHLB		40%
- FFCB		40%
- FHLMC		40%
- FNMA		40%
- Other GSE's		10%
Bankers Acceptance	10%	
Commercial Paper	10%	5%
Certificates of Deposit/Bank Deposits/Savings	25%	15%
Obligations of Oregon / Washington and political sub-divisions	10%	5%
LGIP – (Oregon Short-Term Fund)	ORS 294 Limit	

5.03.092 Investment Maturity

- a. The City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- b. The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.
- c. Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.
- d. Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in higher quality and liquid securities.
- e. Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
WAM (weighted average maturity)	1.5 years

- f. Exception to the 5-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

5.03.093 Competitive Selection and Pricing

- a. Before the City invests any surplus funds or divests of investments prior to maturity, competitive bids to sell or offers to buy shall be obtained from a minimum of three authorized brokers/dealers. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted and utilized in conjunction with an analysis of economic trends to determine which maturities would be most advantageous. Yield curve analysis will also be conducted to determine economics of divesting of existing investments prior to maturity.
- b. Bids/offers will be requested from financial institutions for various options with regard to term and instrument. The City will accept the bid/offer which provides the optimal price when selling securities or investing funds within the scope of these administrative procedures. Purchases shall be in compliance with investment administrative procedures at the time of purchase.
- c. Records will be kept of the bids/offers made, the bid(s)/offer(s) accepted, and a brief explanation of the decision which was made regarding the investment. The Investment Council will be advised in the relevant monthly report of any sale of investment(s) prior to maturity, including details of the competitive bids made and the award decision criteria.
- d. Securities shall generally be held until maturity with the following exceptions:
 - i) A security with declining credit may be sold early to minimize loss of principal.
 - ii) A security exchange that would improve the quality, yield or target duration in the portfolio.
 - iii) Liquidity needs of the portfolio require that the security be sold.

5.03.094 Prohibited Investments:

- a. Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.
- b. The City prohibits mortgage-backed securities in the portfolio.
- c. Securities lending is prohibited in the City's portfolio.
- d. Private Placement or "144A" Securities

5.03.095 Investment of Proceeds from Debt Issuance:

- a. Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.
- b. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section 5.03.092.

5.03.100 Guideline Measurement and Adherence

5.03.101 Guideline Measurement

Guideline measurements will be market value of the investments

5.03.102 Guideline Compliance

a. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.

b. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Investment Council.

c. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

5.03.103 Monitoring and Adjusting the Portfolio

The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.

5.03.110 Reporting Requirements

5.03.111 Annual Compliance:

The Finance Director shall submit an Annual Statement of Compliance with Council Investment Policy to the Investment Council, noting compliance with Council policies. This statement shall be filed as soon as practical after each year end, but by no later than the date specified in the Council Financial Policies.

5.03.112 Procedure Revisions:

The Finance Director shall submit the written investment internal control procedures to the Investment Council when significant revisions are made.

5.03.113 Reporting:

The Finance Director shall provide the Investment Council with a Quarterly Investment Report reviewing compliance with these investment administrative procedures and providing data on investment instruments being held, as well as any narrative necessary for clarification. In addition, a Monthly Investment Report shall be issued within 21 days after the end of the monthly reporting period. At a minimum, the following information shall be provided for each investment or security:

a. Monthly Report

Transaction Report

- Issuer or broker/dealer (financial institution) on each transaction
- Type of investment;
- Certificate or other reference number, if applicable;
- Purchase date;
- Call date (if applicable);
- Maturity date;
- Purchase amount;
- Sale prior to maturity¹;
- Current market value;
- Total cost of the City's portfolio;
- Total market value of the City's portfolio (including GASB 31 gain/loss);
- Weighted average term to maturity;
- Investment activity (purchases and maturities)

Holdings Report

- Par Amount;
- Book Value;
- Current Market Value;
- Total Value of Fund;
- Percentage yield on an annualized basis;
- Yield on Total Portfolio

Performance Report

- Performance of Core Investments relative to the benchmark

b. Quarterly Report

- Liquidity analysis;
- Compliance monitoring data;
- Strategy Review

¹ Information and documentation of details of the competitive offers made and the award decision criteria for sales prior to maturity would be available to Investment Council on request.

5.03.12 Performance Evaluation

- a. The overall performance of the City's investment program shall be evaluated by the Investment Council at the scheduled quarterly meeting using the objectives outlined in these administrative procedures.
- b. The monthly performance of the City's portfolio shall be measured by comparison to appropriate benchmarks for each of the maturity sections in the investment fund.
 - i) Benchmark for Total Funds - LGIP State Pool
 - ii) Market Benchmark for Investment Funds – Bank of America-Merrill Lynch Treasury 0-3 year Index

5.03.13 Adoption

These investment procedures may be reviewed by the Investment Council and the Oregon Short-Term Fund Board prior to approval by the City Manager. Adoption of these procedures supersedes any other previous administrative procedures regarding the City's investment management practices.

5.03.14 Revisions

ORS 294.135(a) requires the annual re-adoption of a written investment policy by the governing body when investments having a maturity longer than 18 months are allowed. Therefore, these procedures shall be reviewed and re-adopted annually by the Investment Council.

Reviewed and Concurred

James Patterson, City Manager

Date

MEMORANDUM

August 6, 2012

To: Investment Council

From: Staci Voight, Treasury Accountant

Subject: Annual Compliance Memo

Investment Policy 10.08.070.010 requires the filing of an annual statement indicating if the City has been in compliance with Council approved investment policies during the previous year. The policy requires that such a statement be filed on or before August 1 of each year.

Pursuant to that requirement, this memo is to advise the Investment Council that the City complied with all provisions of the Investment Policies during the fiscal year 2011-2012.

Review & Concur



Nancy Brewer, Finance Director

DAVIDSON FIXED INCOME MANAGEMENT, INC.
QUARTER ENDING SEPTEMBER 2012**MARKET OVERVIEW**

The market continues to be in a balancing act with respect to liquidity management, yield enhancement and risk taking. Europe continues to be in the forefront of volatility as the central banks artificially prop up troubled countries through the European Central Bank (ECB) dropping its rate to 0%. In the US, the Fed extended Operation Twist until year end, at which time it is fully expected that the Fed will move from buying MBS (mortgage backed securities) to buying treasury securities. The goal is to keep the longer part of the yield curve lower to promote lower cost borrowing.

DFIM continues to focus on managing liquidity requirements, while incorporating the risk/return goals of the portfolio.

*FED Speak for the Quarter:***Fed QE3 Extended into Twilight Zone**

“Chairman Bernanke and the statement documented one more Fed foray into the depths of ultra-easy policy guidance into the ‘Twilight Zone’ of 2015. In addition, the Fed introduced QE3 in the form of an open-ended \$40 billion per month in additional MBS purchases until it sees the whites of the recovery's eyes. Combined with continued Twist Ops through year-end, this would increase the Fed's long-term securities holdings by \$85 billion per month until then.”

Fed On Labor

“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. *The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions.*’ Another central thesis from the fourth paragraph confirmed the depth of the Fed's resolve: ‘The Committee will closely monitor incoming information on economic and financial developments in coming months. *If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability.*’”

“**On the economy**, little was altered in the first paragraph on the "moderate pace" mantra, including sluggish employment, spending, investment in business and housing references.”

“**On inflation**, there was a cursory backtrack. ‘Inflation has been subdued, *although the prices of some key commodities have increased recently.* Longer-term inflation expectations have remained stable.’ And ‘The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.’”

“**In conclusion:** In the press conference the Fed Chairman politely entertained a number of questions relating to the Fed's new policy stance and it was clear that he felt the Fed must do what it can, despite political and fiscal headwinds. He referenced more tools in his policy bag, though he repeatedly said these were ‘not a

panacea,' suggesting that even though he touted the economic benefits of these tools in Jackson Hole, he is all-too-aware of their shortcomings as well. With a trifecta of risk heading into Q4 with Europe, the elections and the fiscal cliff, the Fed may still have a couple tricks up its sleeve as 2013 approaches. Let's hope that Bernanke has better luck ahead in avoiding these pitfalls before he runs out of room in the Fed's balance sheet to have any meaningful impact."

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	2.00
CPI (YOY)	3.85	-0.30	1.60	3.17	2.00	2.00
Unemployment	5.80	9.30	9.70	9.00	8.10	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</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	0.23	0.31	0.35	0.42
10 Year	3.33	1.92	2.21	1.65	1.63	1.78	1.89	2.04

Source: Bloomberg ECFC

STRATEGY :

- Review the portfolio positions and closely manage excess liquidity
- Hold durations at the benchmark targets
- Use the yield curve

CHANGES IN THE TREASURY MARKET:

	<u>12/31/10</u>	<u>12/31/11</u>	<u>6/30/12</u>	<u>9/30/12</u>	<u>Change Last Qtr</u>
3-month bill	0.13	0.01	0.08	0.09	+0.01
2-year note	0.59	0.25	0.30	0.23	-0.07
5-year note	2.00	0.87	0.72	0.62	-0.10
10-year note	3.30	1.95	1.65	1.63	-0.02

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	\$18,746,341.38	60.00%	58.8%	-1.18%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$13,126,823.00	40.00%	41.2%	1.18%
Total			\$31,873,164.38			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	59%	Yes
Under 1 Year	> 25%	62%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	1.03	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	\$31,873,164.38	Yes
Federal Agency and Agency Sponsored	100%	40%	41.18%	\$13,126,823.00	5 Years	\$18,746,341.38	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	5.81%	\$1,851,785.97		\$6,116,505.13	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$3,187,316.44	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$3,187,316.44	Yes
State Obligations (OR,WA, AA or better)	10%	5%	0.00%	\$0.00	5 Years	\$3,187,316.44	Yes
State Pool	ORS Maximum or 100%		53.01%	\$16,894,555.41	N/A	\$27,579,608.59	Yes
Total			100.00%	\$31,873,164.38			
ORS Maximum	\$44,474,164.00						

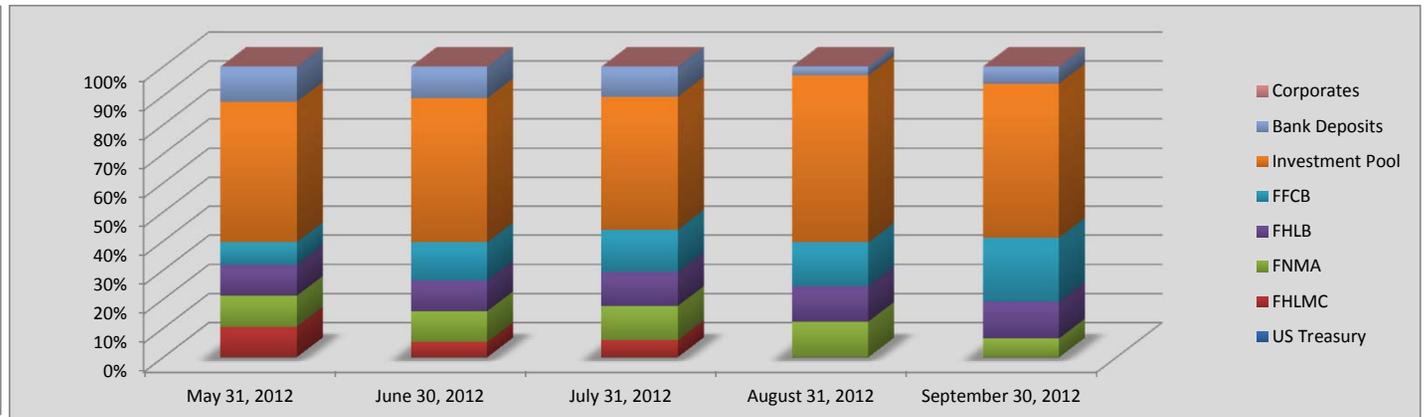
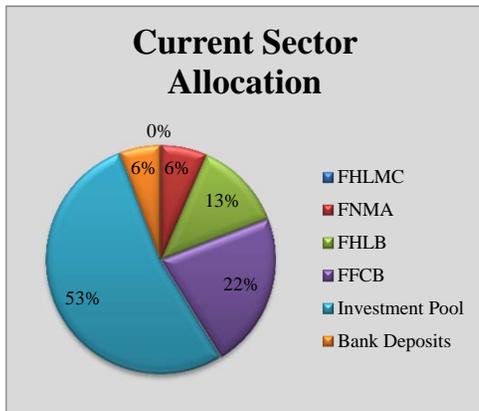
Policy : August 2012

Total Asset Allocation Strategy
(Market Values)

Commentary

The core balance ended the month with \$13MM invested and \$2MM allocated to the LGIP. The latter decision was based on lack of market opportunity when a FHLMC holding was called 8/8th, and the recognition that there might be better rates available for reinvestment when the next call occurs. There was a FNMA called for \$2MM in September that was reinvested into the FFCB .68 9/26/16 Continuous Call 12/26/12 at a .71% YTM and a 1.18% YTC on 12/26/12.

Sector	Yield	May 31, 2012	June 30, 2012	July 31, 2012	August 31, 2012	September 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%	\$4,002,160.00	\$2,000,498.00	\$2,000,094.00	\$0.00	\$0.00	\$0.00
FNMA	0.76%	\$4,067,260.00	\$4,072,890.00	\$4,081,450.00	\$4,081,246.00	\$2,073,114.00	(\$2,008,132.00)
FHLB	0.59%	\$4,043,873.00	\$4,039,458.00	\$4,040,023.00	\$4,038,475.00	\$4,036,091.00	(\$2,384.00)
FFCB	0.81%	\$3,002,727.00	\$5,002,433.00	\$5,012,354.00	\$5,016,113.00	\$7,017,618.00	\$2,001,505.00
Investment Pool	0.60%	\$18,429,573.49	\$18,931,461.47	\$15,758,660.68	\$19,090,136.01	\$16,894,555.41	(\$2,195,580.60)
Bank Deposits	0.53%	\$4,623,778.13	\$4,155,905.07	\$3,577,571.26	\$1,006,085.04	\$1,851,785.97	\$845,700.93
Corporates	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	0.63%	\$38,169,371.62	\$38,202,645.54	\$34,470,152.94	\$33,232,055.05	\$31,873,164.38	(\$1,358,890.67)





DETAIL AMORTIZATION COST RETURN
CITY OF CORVALLIS TOTAL
 From 08-31-12 to 09-30-12

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	7,451.39	-3,047.92	0.00	4,403.47
AGENCY CALLABLE	2,615.28	295.96	0.00	2,911.24
CASH & EQUIVALENTS	239.42	0.00	0.00	239.42
OR STATE POOL	10,775.95	0.00	0.00	10,775.95
TOTAL	21,082.04	-2,751.96	0.00	18,330.08

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

	Total Portfolio
Interest Earned	21,082.04
Accretion/Amortization	-2,751.96
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	18,330.08
Average Daily Historical Cost	33,218,664.10
Return	0.06%
Annualized Return	0.68%
Annualized Return Net of Fees	0.68%
Weighted Duration to Maturity in Years	1.01
Weighted Days to Maturity	375

**CITY OF CORVALLIS TOTAL
PORTFOLIO HOLDINGS**

September 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	100.83	0.71	101.22	0.20	1,012,154.00	5,156.25	1,017,310.25	3,862.02	3.2	0.72	0.72
313371UC8	3,000,000	FEDERAL HOME LN BKS 0.875% Due 12-27-13		11-21-11	100.40	0.55	100.80	0.23	3,023,937.00	6,781.25	3,030,718.25	11,972.75	9.5	1.23	1.23
31398A4M1	2,000,000	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15		01-13-12	102.46	0.81	103.66	0.43	2,073,114.00	13,902.78	2,087,016.78	23,861.73	6.5	2.98	2.98
3133EAUH9	2,000,000	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		06-26-12	99.98	0.75	100.68	0.56	2,013,642.00	4,416.67	2,018,058.67	13,978.59	6.3	3.64	3.64
	8,000,000					0.69		0.36	8,122,847.00	30,256.94	8,153,103.94	53,675.09	25.5	2.21	2.21
AGENCY CALLABLE															
31331KT91	3,000,000	FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14	11-21-12	11-21-11	99.75	0.85	100.06	0.70	3,001,890.00	7,847.50	3,009,737.50	9,391.46	9.4	2.12	0.14
3133EA2D9	2,000,000	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	12-26-12	09-19-12	99.88	0.71	100.10	0.65	2,002,086.00	151.11	2,002,237.11	4,577.44	6.3	3.93	0.24
	5,000,000					0.79		0.68	5,003,976.00	7,998.61	5,011,974.61	13,968.90	15.7	2.84	0.18
CASH & EQUIVALENTS															
CASH	9,957	CASH 0.100% Due 10-01-12		08-31-12	1.00	0.10	1.00	0.10	9,957.00	0.00	9,957.00	0.00	0.0	0.00	0.00
CBANK3	1,841,829	Corvallis Wells Fargo 0.250% Due 10-01-12		09-30-12	1.00	0.25	1.00	0.25	1,841,828.97	0.00	1,841,828.97	0.00	5.8	0.00	0.00
	1,851,786					0.25		0.25	1,851,785.97	0.00	1,851,785.97	0.00	5.8	0.00	0.00
OR STATE POOL															
ORPOOL	14,894,555	OREGON STATE POOL 0.600% Due 10-01-12		08-31-12	1.00	0.60	1.00	0.60	14,894,555.41	0.00	14,894,555.41	0.00	46.7	0.00	0.00
ORPOOL	2,000,000	OREGON STATE POOL 0.600% Due 10-01-12		09-19-12	1.00	0.60	1.00	0.60	2,000,000.00	0.00	2,000,000.00	0.00	6.3	0.00	0.00
	16,894,555					0.60		0.60	16,894,555.41	0.00	16,894,555.41	0.00	53.0	0.00	0.00
TOTAL	31,746,341					0.63		0.53	31,873,164.38	38,255.56	31,911,419.94	67,643.98	100.0	1.01	0.59

*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 09-01-12 To 09-30-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Buy long							
09-19-12	09-19-12	ORPOOL	2,000,000	OREGON STATE POOL 0.600% Due 10-01-12		2,000,000.00	
09-19-12	09-26-12	3133EA2D9	2,000,000	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	12-26-12	1,997,500.00	WELLS FAR
09-30-12	09-30-12	CBANK3	1,841,829	Corvallis Wells Fargo 0.250% Due 10-01-12		1,841,828.97	
						5,839,328.97	
Deposit							
09-30-12	09-30-12	manfee		Management Fee		1,500.00	
Interest							
09-30-12	09-30-12	ORPOOL		OREGON STATE POOL 0.600% Due 10-01-12		1,084.93	
09-30-12	09-30-12	CBANK3		Corvallis Wells Fargo 0.250% Due 10-01-12		239.42	
09-30-12	09-30-12	ORPOOL		OREGON STATE POOL 0.600% Due 10-01-12		9,691.02	
						11,015.37	
Deliver in long							
09-26-12		cash		Cash Account		1,997,500.00	
Deliver out long							
09-19-12		cash		Cash Account		2,007,000.00	
Purchased Accrued Interest							
09-19-12	09-26-12	3133EA2D9		FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	12-26-12	0.00	
Sold Accrued Interest							
09-19-12	09-19-12	3135G0DF7		FEDERAL NATL MTG ASSN 0.700% Due 09-19-14		7,000.00	



**CITY OF CORVALLIS TOTAL
 TRANSACTION SUMMARY**

From 09-01-12 To 09-30-12

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Sell long							
09-19-12	09-19-12	3135G0DF7	2,000,000	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14		2,000,000.00	CALLED
09-26-12	09-26-12	ORPOOL	2,000,000	OREGON STATE POOL 0.600% Due 10-01-12		2,000,000.00	
09-30-12	09-30-12	ORPOOL	2,195,581	OREGON STATE POOL 0.600% Due 10-01-12		2,195,580.60	
09-30-12	09-30-12	CBANK3	996,128	Corvallis Wells Fargo 0.250% Due 10-01-12		996,128.04	
						<hr/>	
						7,191,708.64	

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF CORVALLIS TOTAL
 September 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	-11,311.73	-11,311.73	-49,252.27	2,049,252.27
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	-7,229.70	-8,258.75	-11,964.25	3,011,964.25
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	-8,651.47	-15,998.02	-8,291.98	1,008,291.98
Total				4,044,513.00	-1,740.07	-15,881.18	-24,256.77	-20,256.23	4,020,256.23
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	7.47	23.41	23.41	336.59	1,999,663.41
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	2,624.92	2,998.54	7,501.46	2,992,498.54
FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16 (3133EA2D9)									
2,000,000	1	09-19-12	99.875	1,997,500.00	8.56	8.56	8.56	2,491.44	1,997,508.56
Total				4,987,000.00	295.96	2,633.48	3,007.10	9,992.90	4,990,007.10
CASH(Straight Line)									
CASH 0.100% Due 10-01-12 (CASH)									
9,957	5	08-31-12	1.000	9,957.00	0.00	0.00	0.00	0.00	9,957.00
Corvallis Wells Fargo 0.250% Due 10-01-12 (CBANK3)									
1,841,829	4	09-30-12	1.000	1,841,828.97	0.00	0.00	0.00	0.00	1,841,828.97
Total				1,851,785.97	0.00	0.00	0.00	0.00	1,851,785.97

*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
 September 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
POOL(Straight Line)									
OREGON STATE POOL 0.600% Due 10-01-12 (ORPOOL)									
14,894,555	6	08-31-12	1.000	14,894,555.41	0.00	0.00	0.00	0.00	14,894,555.41
2,000,000	3	09-19-12	1.000	2,000,000.00	0.00	0.00	0.00	0.00	2,000,000.00
16,894,555				16,894,555.41	0.00	0.00	0.00	0.00	16,894,555.41
GRAND TOTAL				31,838,058.38	-2,751.96	-24,536.01	-32,537.98	-59,179.02	31,805,520.40

*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 08-31-12 To 09-30-12

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	3,645.83	0.00	0.00	0.00	1,510.42	5,156.25
313371UC8	FEDERAL HOME LN BKS 0.875% Due 12-27-13	4,666.67	0.00	0.00	0.00	2,114.58	6,781.25
		<u>8,312.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>3,625.00</u>	<u>11,937.50</u>
FNMA							
31398A4M1	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15	11,284.72	0.00	0.00	0.00	2,618.06	13,902.78
		<u>11,284.72</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,618.06</u>	<u>13,902.78</u>
FFCB							
3133EAUH9	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16	3,208.33	0.00	0.00	0.00	1,208.33	4,416.67
		<u>3,208.33</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,208.33</u>	<u>4,416.67</u>
	AGENCY BULLET Total	<u>22,805.56</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>7,451.39</u>	<u>30,256.94</u>
AGENCY CALLABLE							
FNMA							
3135G0DF7	FEDERAL NATL MTG ASSN 0.700% Due 09-19-14	6,300.00	0.00	-7,000.00	0.00	700.00	0.00
		<u>6,300.00</u>	<u>0.00</u>	<u>-7,000.00</u>	<u>0.00</u>	<u>700.00</u>	<u>0.00</u>
FFCB							
31331KT91	FEDERAL FARM CR BKS CONS 0.730% Due 11-21-14	6,083.33	0.00	0.00	0.00	1,764.17	7,847.50



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
From 08-31-12 To 09-30-12

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
3133EA2D9	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	0.00	0.00	0.00	0.00	151.11	151.11
		6,083.33	0.00	0.00	0.00	1,915.28	7,998.61
	AGENCY CALLABLE Total	12,383.33	0.00	-7,000.00	0.00	2,615.28	7,998.61
	AGENCY Total	35,188.89	0.00	-7,000.00	0.00	10,066.67	38,255.56
CASH							
CASH & EQUIVALENTS							
CASH							
CASH	CASH 0.100% Due 10-01-12	0.00	0.00	0.00	0.00	0.00	0.00
CBANK3	Corvallis Wells Fargo 0.250% Due 10-01-12	0.00	0.00	0.00	-239.42	239.42	0.00
		0.00	0.00	0.00	-239.42	239.42	0.00
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	-239.42	239.42	0.00
OR STATE POOL							
STATE INVESTMENT POOL							
ORPOOL	OREGON STATE POOL 0.600% Due 10-01-12	0.00	0.00	0.00	-10,775.95	10,775.95	0.00
		0.00	0.00	0.00	-10,775.95	10,775.95	0.00
	OR STATE POOL Total	0.00	0.00	0.00	-10,775.95	10,775.95	0.00
	CASH Total	0.00	0.00	0.00	-11,015.37	11,015.37	0.00
TOTAL PORTFOLIO		35,188.89	0.00	-7,000.00	-11,015.37	21,082.04	38,255.56

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

Investment/Issuer Types				Other	
BA	Banker's Acceptance	FHLB	Federal Home Loan Bank	CPI	Consumer Price Index
CASH	Petty Cash	FHLMC	Federal Home Loan Mortgage Corporation	FOMC	Federal Open Market Committee
CBANK3	Wells Fargo Bank Checking	FNMA	Federal National Mortgage Association	GDP	Gross Domestic Product
CD	Certificates of Deposit	ORPOOL	Local Government Investment Pool	OSTFB	Oregon Short Term Fund Board
CP	Commercial Paper			QE	Quantitative Easing
FFCB	Federal Farm Credit Bureau			YTM	Yield to Maturity
FFCR	Federal Farm Credit Bank			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
September 2012**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	4,663,635	6,208,862	(1,545,227)
Projected Activity	6,149,585	8,364,948	(2,215,363)
Difference	(1,485,950)	(2,156,086)	670,136

(1) Receipts include deposits and interest received.

Receipts appear significantly less than budget mostly in the area of Federal Grants. Most grants are disbursed on a reimbursement basis, so receipt of grant dollars is dependent upon the submission of the reimbursement request. This situation held true for receipts related to the HOME grant, the largest Federal block grant from the Department of Housing and Urban Development (HUD), which should be received in October, based on activity and reimbursement request submission timing. Additionally, actual eligible drawdown for HOME is less than what had been budgeted for the year when cash flowing projections were done for FY12/13. Another situation impacting total grants recorded in September is the drawdown request submissions totaling \$616,000 for the purchase of two buses, which did not take place until October.

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

Disbursements are also lower than budget mostly due to the area of General Services. General Services are significantly lower than what was cash flowed due to the carry over of several capital projects from last fiscal year which have either not yet commenced, or were completed last year despite projections to the contrary. Additionally, in relation to the eligibility of HOME grant funds mentioned above, General Services expenditures related to HOME are subsequently considerably less than what was projected.

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 September 2012

Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance	Interest Distributed
101	General	(12,476.67)	91.53	460	Davidson Library	5,956.70	3.36
201	Street	548,801.96	396.94	501	Water	1,753,398.88	864.16
208	Street SDC	2,277,613.77	1,286.49	502	Water Timber	274,756.53	156.09
210	Parks & Recreation	598,221.35	439.95	508	Water SDC	4,582,810.76	2,617.21
211	Parks & Recreation - Aquatics	71,539.09	60.26	509	Water Construction	60,875.64	59.50
212	Open Space	94,464.14	53.54	520	Wastewater	3,071,705.70	1,856.29
218	Parks SDC	2,070,944.12	1,164.85	528	Wastewater SDC	8,444,215.77	118.99
220	911	527,645.16	327.29	529	Wastewater Construction	205,530.00	4,635.55
230	Development Services	1,381,787.48	775.46	540	Storm Water	1,617,235.69	933.35
240	Fire & Rescue	(874,540.89)	(329.65)	548	Storm Water SDC	69,965.38	39.39
250	Comm Dev Revolving	(56,283.79)	(30.90)	549	Storm Water Construction	(155,451.27)	(86.85)
260	Parking	1,045,228.54	593.40	560	Airport	603,989.06	334.08
270	Transit	697,402.38	378.87	569	Airport Construction	-	-
290	Library	31,392.97	128.55	610	Fleet Maintenance	70,072.07	40.87
291	Library 2010	434,967.47	246.58	615	Facility Maintenance	165,772.78	89.59
301	Capital Improvement	1,667,066.02	945.84	620	Technology & Communications	536,836.52	298.45
401	General Obligation Debt Service	11,543.38	6.49	625	Administrative Services	244,217.63	144.01
				630	Risk Management	933,412.28	549.27
Total						33,000,616.61	19,188.80

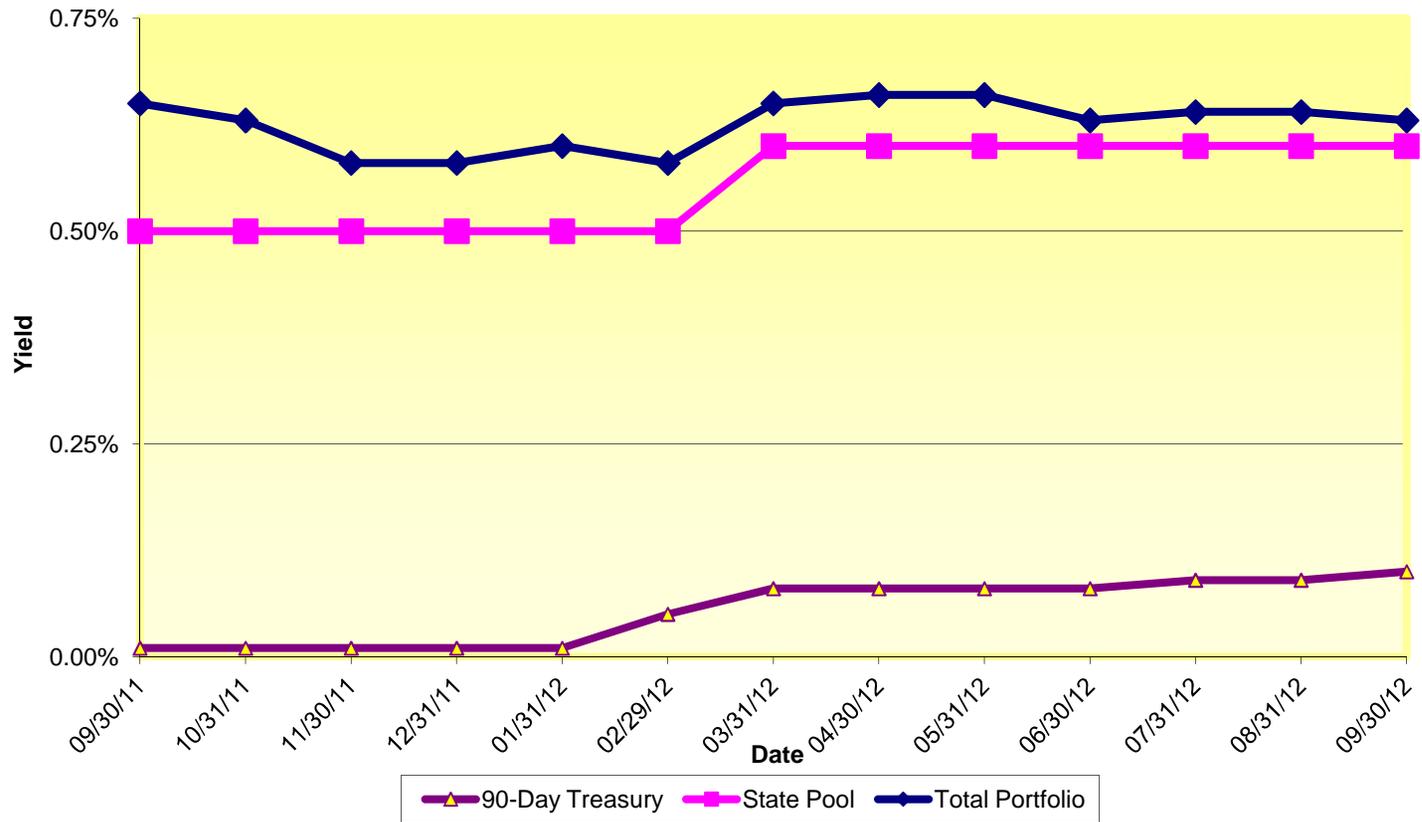
Accrual accounting on investments was implemented in August 2011. The interest distributed will equal the monthly interest income accrual, net of any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

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.

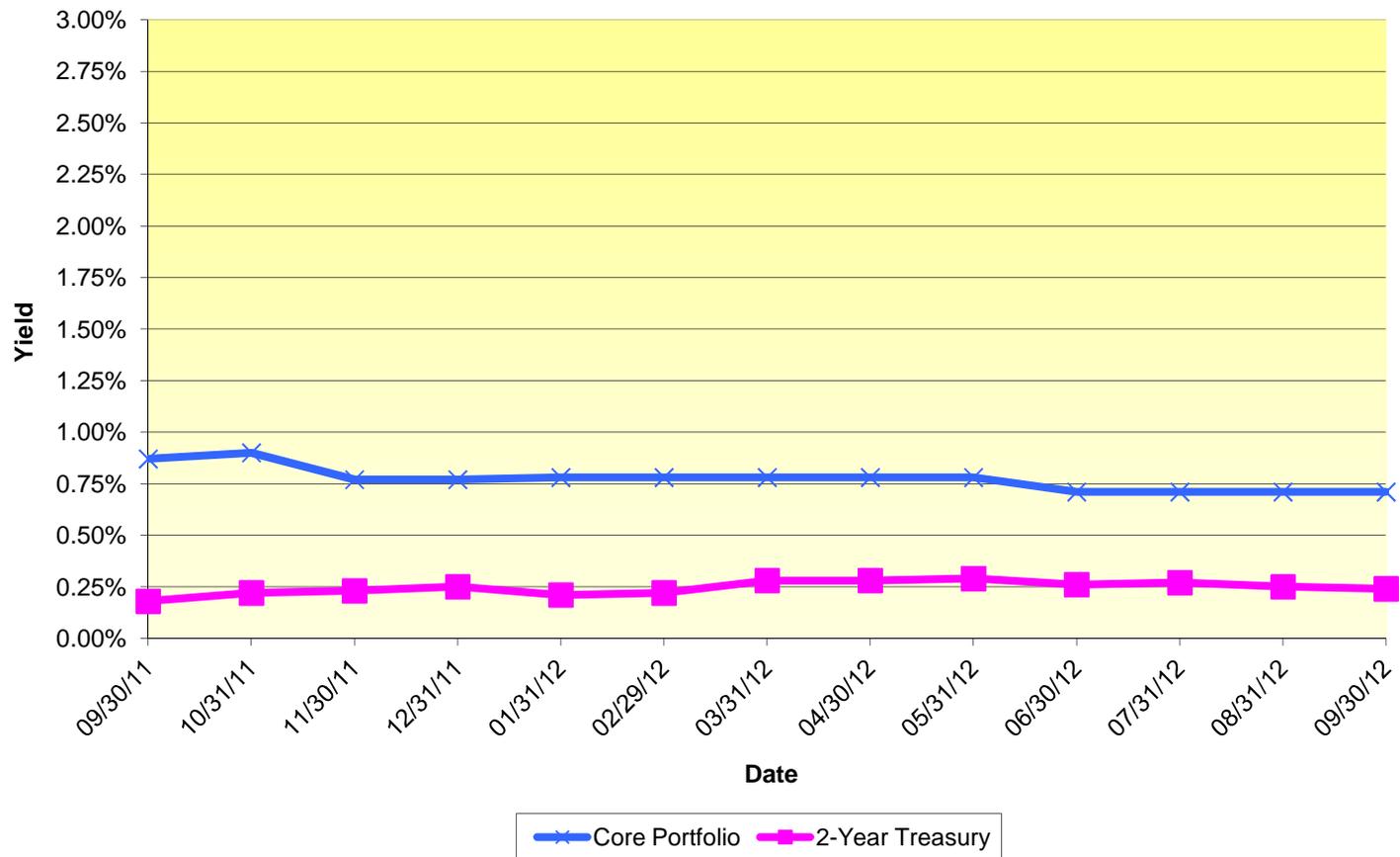


City of Corvallis Total Portfolio vs. Benchmark September 2011 - September 2012



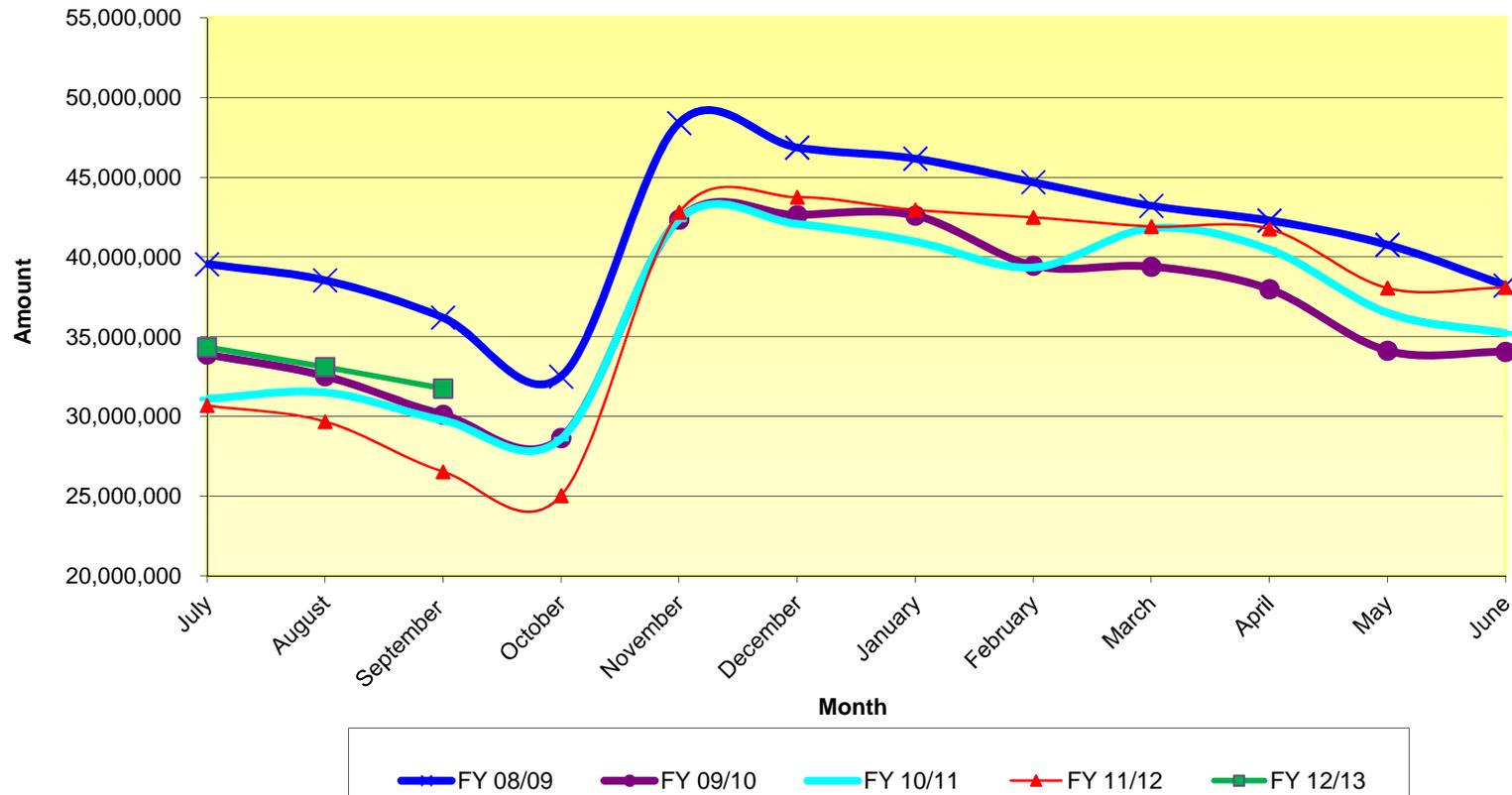


City of Corvallis Core Portfolio vs. Benchmark September 2011- September 2012





City of Corvallis Cash & Investments





City of Corvallis Cash and Investments By Quarter

