

CITY OF CORVALLIS

Investment Council

Treasury Report

June 2013

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

Agenda – Investment Council Meeting 5/9/2013.....	1
Draft Minutes – Investment Council Meeting 2/15/13.....	2
Davidson Fixed Income Management Report	
Market & Strategy Commentary.....	6
Policy Compliance.....	8
Asset Allocation.....	9
Portfolio Returns.....	10
Portfolio Holdings.....	11
Transaction Summary.....	12
Amortization and Accretion.....	13
Interest Accruals.....	17
Glossary of Terms.....	18
Cash Flow Summary.....	19
Monthly Revenue Allocations.....	20
Graphs	
Total Portfolio Yield.....	21
Core Portfolio Yield.....	22
Cash & Investments.....	23
Cash & Investments by Quarter.....	24

INVESTMENT COUNCIL MEETING

August 8, 2013

Madison Avenue Meeting Room (MAMR)

Thursday – 1:00 pm

*****AGENDA*****

- I. Approve Draft Minutes of Previous Meeting
- May 9, 2013
- II. Fiscal Year 2012-2013 Fourth Quarter Review
- Quarterly Portfolio Summary
- III. DFIM – Investment Advisor Annual Overview
- IV. Annual Investment Policy Review
- V. Annual Compliance Certificate
- VI. Open Discussion

*****Next Meeting – Nov. 07, 2013 - Thursday 7:30 am*****

DRAFT
CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
May 9, 2013
MINUTES

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. on May 9, 2013, in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

Present: Jim Patterson, Nancy Brewer, Scott Fewel, Bill Mercer, Janet Chenard, Jeanna Yeager and Rebecca Wrobleski
Absent: Richard Hervey

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held for Further Review	Recommendations
Introductions/Overview	X		
Approve Minutes of February 15, 2013			Approved as drafted.
Fiscal Year 2012-2013 Third Quarter Review	X		
Addition of OSU-Federal Credit Union to City's Approved Financial Institutions List	X		Approved by email vote in advance of meeting.
Open Discussion	X		
Adjournment – 8:00 a.m.			

CONTENT OF DISCUSSION

I. INTRODUCTIONS/OVERVIEW

City Manager Jim Patterson called the meeting to order and noted three items for discussion with open questions at the end of the meeting.

II. APPROVES MINUTES OF FEBRUARY 15,2013

Mr. Patterson invited any corrections to the minutes from February 15, 2013 meeting. There being none, the minutes were approved as drafted.

III. Fiscal Year 2012-2013 Third Quarter Review

Accountant Jeanna Yeager read the following statement regarding the economic outlook:

Following their January meeting, the Federal Open Market Committee released in its March 20th statement that economic activity has continued to increase at a moderate pace in recent months. Although employment has risen slowly, the unemployment rate remains elevated. Housing market conditions continued to improve but fiscal policy has become more restrictive.

Inflation has been lower than anticipated, apart from temporary variations that reflect higher energy price fluctuations, and longer-term inflation expectations have remained stable.

To support continued progress toward maximum employment and price stability, the Committee expects to maintain a highly accommodative stance of monetary policy and plans to keep the federal funds rate exceptionally low – in the 0 to quarter percent range, at least as long as unemployment remains over 6.5 percent.

Ms. Yeager presented the Quarterly Portfolio Summary for the quarter ending March 31, 2013 (Attachment A). The third quarter showed a net decrease in ending cash balances of approximately \$2.6 million. A drop is to be expected, and cash balances should continue decreasing until next November when the next influx of property taxes occurs. Investment purchases included a Polk County School District municipal bond in February for \$500,000, which will mature in June 2016. The City's total portfolio book yields have decreased by four basis points. The Core portfolio remained stable, and the State Pool dropped six basis points over the quarter. The Two-Year Treasury dropped one basis point over the period.

City Attorney Scott Fewel confirmed with Ms. Yeager that the Total Portfolio return was 0.58 percent at the end of the quarter.

Mr. Patterson asked for clarification on the reference to more restrictive current fiscal policy. Ms. Yeager stated that this comment was with regard to lending practices. Budget and Financial Planning Manager Janet Chenard noted that the whole concept of apparent long term stability prevailing is in the context of "stabilized at a very low level." This adverse economic situation has been going on for several years now, and appears to be expected to continue for at least a few more years.

Mr. Fewel expressed confusion about the fact that there seemed to be more good news lately about the housing market improving, and stock markets rebounding. Finance Director Nancy Brewer responded with additional information on the local community, business and lending practices and the impact on how the markets look at municipalities as investments. There was continued discussion that housing values in Corvallis are increasing, but that actual permits for single family housing starts still are not at the volume they have been in the past.

The discussion continued on to the current legislation and the reporting implications of the Public Employee Retirement System (PERS) liabilities in the future.

Citizen representative Bill Mercer questioned if the City's PERS obligation has gone up year over year. Senate Bill 822, in the process of being signed by the governor, may decrease the City's employer rate from the originally calculated percentage change. This rate change should be

determined later this year, and would be retroactive to July 1, 2013. There is a 3.6% - 4.6% rate increase built into the FY 2013-14 Proposed Budget depending on the plan the individual is in and based on rates given to the City by PERS. Further discussion related to possibly setting aside any savings from a decreased rate in a specified PERS reserve for future costs, and information on the impending GASB requirements for additional disclosure of the City's pension liability.

Mr. Fewel raised the issue of possibly moving funds from the State Pool to other higher yielding investments since the LGIP rate is so low at 0.54 percent. Ms. Yeager responded with the information that the City has just made some additional investments that would be addressed under the third agenda item. Ms. Chenard continued the discussion by relaying that there are not a lot of additional investment opportunities out in the market, with appropriately short terms (given summer liquidity needs) that have better returns than the State Pool at this time. The City's investment advisor is primarily considering the municipal bond market at this time as one of the better options to place the remaining half million of the City's \$15 million Core Investment portfolio.

III. ADDITION OF OSU-FEDERAL CREDIT UNION TO CITY'S APPROVED FINANCIAL INSTITUTIONS LIST.

Ms. Chenard noted that members provided electronic approval effective April 8, 2013 to add the Oregon State University Federal Credit Union (OSU-FCU) as an approved Financial Institution for the City of Corvallis. OSU-FCU had recently become a State approved depository, which provided the City with an opportunity to develop a local banking relationship for which a strong community contingent have expressed support.

An investment was made on April 19, 2013 with OSU-FCU for \$1 million in a Certificate of Deposit for a three year term at a one percent annual yield. This is a remarkable rate in the current market environment. OSU-FCU has agreed that it would be fine to publicize the City's efforts to enhance local investment. The State requires that there be notification of such transactions with any of these newly approved credit union depositories, to ensure that the State, who will be closely monitoring the credit unions' performance, may quickly contact investing agencies if the credit worthiness of any of these institutions deteriorates. The OSU-FCU is not part of the Federal Deposit Insurance Corporation (FDIC) but participates in the National Credit Union Administration (NCUA) insurance program which also covers up to \$250,000 in balances; to hold public monies in excess of the insurance level requires the OSU-FCU to collateralize the balances with the State. In addition to its apparent interest in being a lender for local government, OSU-FCU has made it clear that it would like to be the City's primary depository institution in the future.

IV. OPEN DISCUSSION

The next Investment Council Meeting has been tentatively scheduled for August 8, 2013 at 7:30am. Deanne Woodring from Davidson Fixed Income Management, the City's Investment Advisor, will be attending the next meeting, so this date or another will be confirmed with the investment council members electronically. Ms. Chenard asked that every one please double check their calendars since August can sometimes be difficult to get a quorum of attendees due to summer vacations.

V. ADJOURNMENT

The meeting was adjourned at 8:00 a.m.

DAVIDSON FIXED INCOME MANAGEMENT, INC.
QUARTER ENDING JUNE 2013

Market Yields: What a difference a quarter makes! In the last quarterly commentary we mentioned the lack of volatility in fixed income markets over the past several years. Well, that has all changed and interest rates are on the move. In the second quarter of 2013 the three-year note reached a low of .32% and a high of .746%. The five-year note range was .64% to 1.49%. The market is getting exciting again and we are hopeful that earnings rates will improve over the coming months. For those of you who have fiscal year end, the large upward swing in interest rates will have a negative impact on the market value of the investment portfolio for GASB reporting. These market value changes are not realized, but must be documented on financials. DFIM has managed interest rate risk and has worked on balancing the appropriate trade off of higher earnings over the past several years with the expected price decline in rising rates.

Market Expectations for 2013 and beyond:

The fixed income market has adjusted to the recent Fed announcement of the possibility to taper Fed purchases. The significant liquidation of fixed income funds was executed in an environment that has a much weaker dealer community versus pre 2008. New financial regulations have reduced the risk taking capacity of all financial participants which allows for more volatility when funds need to liquidate. The lack of bidders in down markets creates temporary oversold conditions, which DFIM suspects we are in currently. Longer term we should be in the very early stages of a cyclical move to higher rates.

Fed Becomes Own “Tail Risk”

Overlooking the Fed’s more optimistic prognosis on the economic outlook, the markets zeroed in on the intention to begin to remove accommodation, which sent yields exploding to August 2011 highs. In effect, the Fed has become its own “tail risk,” which was always the argument against QE policy to begin with – the “Great Unwind” would be the hardest part. Market sensitivity to any such verbal guidance now remains acute and heading into quarter-end volatility remained in charge.

U.S. Jobs Data Outperform, Despite Good Sector Restraint

The U.S. June jobs data revealed upside surprises for payrolls, hours-worked, and wages. Moderate civilian employment and labor force gains left the jobless rate at 7.56%. The participation rate rose to 63.5% from 63.4% in May and up from a 34 year low of 63.3% in April. The firm jobs data boosted our income estimates and bode well for GDP, though the factory data were sluggish and construction hours-worked fell.

FOMC- Sees Diminishing Downside Risk

Since the Fed’s last statement on May 1, the market and Fed have focused on the timing and shape of the Fed’s exit strategy from QE. The Fed contributed to market uncertainty when Chairman Bernanke publicly considered stepping back from the full QE. With the last statement, the seeds of QE tapering were sown with reference that “downside risks diminished” for economic prospects, though the outlook is still “moderate” on the economic and inflation fronts. In Q&A, Bernanke explicitly outlined an optimal path for QE purchase reductions later this year, all else being equal.

On the Economy:

Noting diminished downside risks, “Information received since the Federal Open Market Committee meeting met in May suggests that economic activity has been expanding at a moderate pace. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated.”

Sources: Action Economics, Bloomberg



<u>Indicator</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 est</u>
Real GDP	-30	-3.10	2.40	1.80	2.20	1.80
CPI (YOY)	3.85	-0.35	1.63	3.17	2.08	1.50
Unemployment	5.80	9.30	9.60	8.90	8.10	7.50

Source: Bloomberg Fed Forecasts

Composite Economist's Rate Projections: No change is projected for overnight rates through Q4 -2013. 10 year rates are expected to trend higher, but shorter rates are being held down by fed policy.

<u>Maturity</u>	<u>2010</u> <u>Ending</u>	<u>2011</u> <u>Ending</u>	<u>2012</u> <u>Ending</u>	<u>Q1</u> <u>2013</u> <u>Ending</u>	<u>Q2</u> <u>2013</u> <u>Ending</u>	<u>Q3</u> <u>2013 est</u>	<u>Q4</u> <u>2013 est</u>
Fed Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2 Year	0.60	0.24	0.25	0.24	0.36	0.37	0.45
10 Year	3.33	1.92	1.76	1.85	2.49	2.50	2.62

Source: Bloomberg ECFC

CHANGES IN THE TREASURY MARKET:

	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>	<u>6/30/13</u>
3-month bill	0.13	0.01	0.04	0.03
2-year note	0.59	0.25	0.25	0.35
5-year note	2.00	0.87	0.72	1.43
10-year note	3.30	1.95	1.76	2.60

Source: Bloomberg

CITY OF CORVALLIS - YEAR END COMMENTS

City of Corvallis Portfolio Activity:

- The total investment component of the portfolio decreased by \$645,425.48 over the year due to unattractive investment rates in open market securities and an increased need for liquidity heading into summer. This was also brought on by an unexpected significant refund paid out that was related to the City’s largest property tax payer.
- The City supported the community banking initiative to add credit unions to the collateral pool. The City invested \$1MM in a 3 year CD with OSU Federal Credit Union. This added earnings of over 40 basis points to treasury securities and provides value to the community. The CD is collateralized through the State of Oregon Collateral pool.
- The last maturity was on 6/21/13 and the funds were moved to the State Pool. The earnings rate on the pool is .54% and the investment alternative that was appropriate to meet the City’s risk profile was at .56%. It did not make sense to invest. Since that period the same security is yielding a .66%. The City will monitor the markets and determine the appropriate time to move back into the portfolio.
- The yield on the investment portfolio is .69%, compared to the State Pool at .54%
- The investment portfolio is diversified in Government agency, Oregon Municipal securities, Credit Union CD’s and the State Investment Pool.
- The total return performance of the fund on a gross basis is similar to the established benchmark (0.28% vs. 0.292% annualized).

Strategic Review:

The City is implementing a liquidity/core strategy to meet the policy objectives of safety, liquidity and return. In most market periods the longer core portfolio provides more yield and has higher total returns than the State LGIP, due to the longer maturity and higher interest rate exposure. It is typical to have short periods of underperformance when rates reverse and move higher, which negatively impacts market values. Open market securities will be purchased as interest rates rise, increasing the earnings on this component.

	Annualized Yield (amortized)	State Investment Pool Yield
Fiscal 2012	0.81	0.60%
Fiscal 2013	0.74	0.54%

Policy Compliance Report

(Market Values)

Overall Portfolio Structure

	Investment Strategy Range		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$27,795,620.95	60.00%	67.3%	7.29%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$13,513,725.00	40.00%	32.7%	-7.29%
Total			\$41,309,345.95			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	67%	Yes
Under 1 Year	> 25%	75%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.78	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	\$41,309,345.95	Yes
Federal Agency and Agency Sponsored	100%	40%	29.08%	\$12,014,505.00	5 Years	\$29,294,840.95	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	5.88%	\$2,427,385.49		\$7,899,951.00	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$4,130,934.60	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$4,130,934.60	Yes
Municipal Obligations (OR, WA, AA or better)	10%	5%	1.21%	\$499,220.00	5 Years	\$3,631,714.60	Yes
State Pool	ORS Maximum or 100%		63.83%	\$26,368,235.46	N/A	\$19,037,207.54	Yes
Total			100.00%	\$41,309,345.95			

ORS Maximum \$45,405,443.00

***Investment Policy Note:** Section 5.03.102 states "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 to 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."

Policy : August 2012

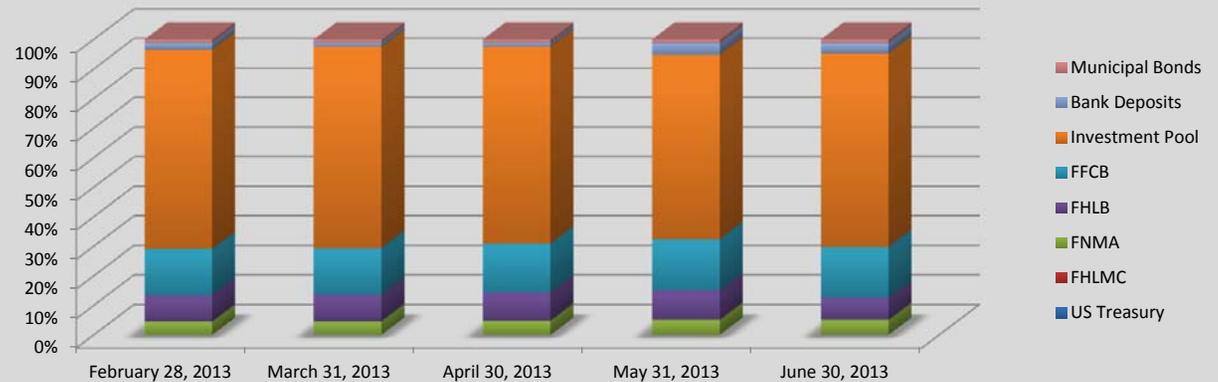
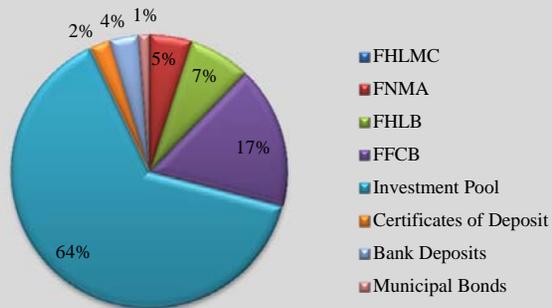
Total Asset Allocation Strategy
(Market Values)

Commentary

When the maturity came due on June 21st, the funds were moved to the pool due to the low rate environment. We will look for opportunities to reinvest. An OSU CD due 4/19/16 was purchased at a yield of .995%, which was substantially higher than the .40% available in agencies at the time of purchase on 4/19/13.

Sector	Yield	February 28, 2013	March 31, 2013	April 30, 2013	May 31, 2013	June 30, 2013	Change From Last Month
US Treasury	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FHLMC	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FNMA	0.81%	\$2,063,912.00	\$2,062,370.00	\$2,062,652.00	\$2,056,712.00	\$2,049,582.00	(\$7,130.00)
FHLB	0.55%	\$4,021,924.00	\$4,019,721.00	\$4,016,924.00	\$4,012,957.00	\$3,010,629.00	(\$1,002,328.00)
FFCB	0.65%	\$7,008,940.00	\$7,017,858.00	\$7,021,324.00	\$6,994,583.00	\$6,954,294.00	(\$40,289.00)
Investment Pool	0.54%	\$30,431,888.53	\$30,395,488.45	\$28,167,594.11	\$25,161,070.16	\$26,368,235.46	\$1,207,165.30
Certificates of Deposit	1.00%	\$0.00	\$0.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$0.00
Bank Deposits	0.25%	\$1,033,811.07	\$620,190.10	\$530,441.47	\$1,578,209.02	\$1,427,385.49	(\$150,823.53)
Municipal Bonds	0.88%	\$501,550.00	\$502,620.00	\$504,100.00	\$501,885.00	\$499,220.00	(\$2,665.00)
Total	0.69%	\$45,062,025.60	\$44,618,247.55	\$43,303,035.58	\$39,382,740.46	\$41,309,345.95	\$3,929.77

Current Sector Allocation





DETAIL AMORTIZATION COST RETURN
CITY OF CORVALLIS TOTAL

From 05-31-13 to 06-30-13

CURRENT HOLDINGS	Interest Earned	Accretion (Amortization)	Realized Gain/Loss	Total Income
AGENCY BULLET	6,982.64	-2,756.65	0.00	4,225.99
AGENCY CALLABLE	2,424.72	140.14	0.00	2,564.86
MUNICIPALS	354.85	-1.85	0.00	353.01
CASH & EQUIVALENTS	0.00	0.00	0.00	0.00
CERTIFICATE OF DEPOSITS	1,647.30	0.00	0.00	1,647.30
OR STATE POOL	11,695.21	0.00	0.00	11,695.21
TOTAL	23,104.72	-2,618.36	0.00	20,486.36

SUMMARY OF AMORTIZED COST BASIS
RETURN FOR THE PERIOD
CITY OF CORVALLIS TOTAL

May 31, 2013 to June 30, 2013

	Total Portfolio
Interest Earned	23,104.72
Accretion/Amortization	-2,618.36
Realized Gain/Loss on Sales	0.00
Total Income on Portfolio	20,486.36
Average Daily Historical Cost	41,335,728.11
Return	0.05%
Annualized Return	0.60%
Annualized Return Net of Fees	0.60%
Weighted Duration to Maturity in Years	0.77
Weighted Days to Maturity	286



**CITY OF CORVALLIS CORE FUND
PORTFOLIO HOLDINGS**

June 30, 2013

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															
313371UC8	3,000,000	FEDERAL HOME LN BKS 0.875% Due 12-27-13		11-21-11	100.16	0.55	100.35	0.15	3,010,629.00	218.75	3,010,847.75	5,883.97	20.7	0.49	0.49
31398A4M1	2,000,000	FEDERAL NATL MTG ASSN 1.625% Due 10-26-15		01-13-12	101.86	0.81	102.48	0.55	2,049,582.00	5,777.78	2,055,359.78	12,318.94	14.1	2.28	2.28
3133EAUH9	2,000,000	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		06-26-12	99.99	0.75	99.99	0.75	1,999,898.00	666.67	2,000,564.67	166.59	13.8	2.92	2.92
	7,000,000					0.68		0.44	7,060,109.00	6,663.19	7,066,772.19	18,369.49	48.6	1.70	1.70
AGENCY CALLABLE															
3133EC3F9	3,000,000	FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16	07-15-13	11-15-12	99.89	0.59	99.14	0.83	2,974,176.00	5,683.33	2,979,859.33	-22,416.08	20.5	3.11	0.04
3133EA2D9	2,000,000	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	Cont. call	09-19-12	99.90	0.71	99.01	0.99	1,980,220.00	3,551.11	1,983,771.11	-17,756.03	13.6	3.19	3.19
	5,000,000					0.64		0.89	4,954,396.00	9,234.44	4,963,630.44	-40,172.11	34.1	3.14	1.30
CERTIFICATE OF DEPOSITS															
CORV001CD	1,000,000	OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16		04-19-13	100.00	1.00	100.00	0.99	1,000,000.00	1,990.00	1,001,990.00	0.00	6.9	2.74	2.74
MUNICIPALS															
731418KU2	500,000	POLK MARION & BENTON SD 0.881% Due 06-15-16		02-01-13	100.01	0.88	99.84	0.93	499,220.00	183.54	499,403.54	-846.51	3.4	2.91	2.91
OR STATE POOL															
ORPOOL	1,000,000	OREGON STATE POOL 0.540% Due 07-01-13		06-21-13	1.00	0.54	1.00	0.54	1,000,000.00	0.00	1,000,000.00	0.00	6.9	0.00	0.00
TOTAL	14,500,000					0.69		0.66	14,513,725.00	18,071.18	14,531,796.18	-22,649.12	100.0	2.19	1.56

*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 CORE FUND
TRANSACTION SUMMARY

From 06-01-13 To 06-30-13

Trade Date	Settle Date	Cusip	Quantity	Security	Call Date	Amount	Broker
Buy long							
06-21-13	06-21-13	ORPOOL	1,000,000	OREGON STATE POOL 0.540% Due 07-01-13		1,000,000.00	
Deposit							
06-30-13	06-30-13	manfee		Management Fee **		1,500.00	
Interest							
06-14-13	06-14-13	3133EAUH9		FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16		7,500.00	
06-15-13	06-15-13	731418KU2		POLK MARION & BENTON SD 0.881% Due 06-15-16		1,492.81	
06-19-13	06-19-13	CORV001CD		OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16		818.13	
06-27-13	06-27-13	313371UC8		FEDERAL HOME LN BKS 0.875% Due 12-27-13		13,125.00	
06-30-13	06-30-13	ORPOOL		OREGON STATE POOL 0.540% Due 07-01-13		133.15	
						23,069.09	
Deliver out long							
06-14-13		cash		Cash Account		7,500.00	
06-17-13		cash		Cash Account		1,492.81	
06-21-13		cash		Cash Account		1,009,375.00	
06-27-13		cash		Cash Account		13,125.00	
						1,031,492.81	
Sold Accrued Interest							
06-21-13	06-21-13	3133XXYX9		FEDERAL HOME LN BKS 1.875% Due 06-21-13		9,375.00	
Sell long							
06-21-13	06-21-13	3133XXYX9	1,000,000	FEDERAL HOME LN BKS 1.875% Due 06-21-13		1,000,000.00	MATURITY

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

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

AMORTIZATION AND ACCRETION - SETTLED TRADES
CITY OF CORVALLIS TOTAL
 June 30, 2013

Purchase Information					Amortization/Accretion Information				
Quantity	Lot	Purchase Date	Price	Total Cost	Month To Date	Year To Date	Total To Date	Balance	Adjusted Cost
MUNICIPAL BONDS(Straight Line)									
POLK MARION & BENTON SD 0.881% Due 06-15-16 (731418KU2)									
500,000	1	02-01-13	100.015	500,075.00	-1.85	-8.49	-8.49	-66.51	500,066.51
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	-1,318.92	-7,955.57	-23,300.94	-37,263.06	2,037,263.06
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	-793.74	-4,788.91	-15,477.97	-4,745.03	3,004,745.03
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	45.08	91.41	268.59	1,999,731.41
FFCB CALLABLE(Straight Line)									
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	51.37	309.93	476.03	2,023.97	1,997,976.03
FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16 (3133EC3F9)									
3,000,000	1	11-15-12	99.865	2,995,950.00	88.77	535.56	642.08	3,407.92	2,996,592.08
Total				4,993,450.00	140.14	845.49	1,118.11	5,431.89	4,994,568.11
CERTIFICATES OF DEPOSIT(Unadjusted)									
OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16 (CORV001CD)									
1,000,000	1	04-19-13	100.000	1,000,000.00	0.00	0.00	0.00	0.00	1,000,000.00
CASH(Straight Line)									
CASH 0.100% Due 07-01-13 (CASH)									
9,657	6	11-30-12	1.000	9,657.00	0.00	0.00	0.00	0.00	9,657.00
Corvallis Wells Fargo 0.250% Due 07-01-13 (CBANK3)									
1,417,728	9	05-31-13	1.000	1,417,728.49	0.00	0.00	0.00	0.00	1,417,728.49
Total				1,427,385.49	0.00	0.00	0.00	0.00	1,427,385.49

*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, 2013

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 0.540% Due 07-01-13 (ORPOOL)									
1,000,000	4	06-21-13	1.000	1,000,000.00	0.00	0.00	0.00	0.00	1,000,000.00
25,368,235	11	06-30-13	1.000	25,368,235.46	0.00	0.00	0.00	0.00	25,368,235.46
26,368,235				26,368,235.46	0.00	0.00	0.00	0.00	26,368,235.46
GRAND TOTAL				41,369,572.95	-1,966.90	-11,862.39	-37,577.88	-36,374.12	41,331,995.07

*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 05-31-13 To 06-30-13

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
MUNICIPALS							
MUNICIPALS							
MUNICIPAL GENERAL OBLIGATION							
731418KU2	POLK MARION & BENTON SD 0.881% Due 06-15-16	1,321.50	0.00	0.00	-1,492.81	354.85	183.54
		1,321.50	0.00	0.00	-1,492.81	354.85	183.54
MUNICIPALS Total		1,321.50	0.00	0.00	-1,492.81	354.85	183.54
MUNICIPALS Total		1,321.50	0.00	0.00	-1,492.81	354.85	183.54
AGENCY							
AGENCY BULLET							
FHLB							
3133XXYX9	FEDERAL HOME LN BKS 1.875% Due 06-21-13	8,333.33	0.00	-9,375.00	0.00	1,041.67	0.00
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
		19,562.50	0.00	-9,375.00	-13,125.00	3,156.25	218.75
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
		3,159.72	0.00	0.00	0.00	2,618.06	5,777.78
FFCB							
3133EAUH9	FEDERAL FARM CR BKS CONS 0.750% Due 06-14-16	6,958.33	0.00	0.00	-7,500.00	1,208.33	666.67
		6,958.33	0.00	0.00	-7,500.00	1,208.33	666.67
AGENCY BULLET Total		29,680.56	0.00	-9,375.00	-20,625.00	6,982.64	6,663.19



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL

From 05-31-13 To 06-30-13

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
AGENCY CALLABLE							
FFCB							
3133EC3F9	FEDERAL FARM CR BKS CONS 0.550% Due 08-26-16	4,354.17	0.00	0.00	0.00	1,329.17	5,683.33
3133EA2D9	FEDERAL FARM CR BKS CONS 0.680% Due 09-26-16	2,455.56	0.00	0.00	0.00	1,095.56	3,551.11
		6,809.72	0.00	0.00	0.00	2,424.72	9,234.44
AGENCY CALLABLE Total		6,809.72	0.00	0.00	0.00	2,424.72	9,234.44
AGENCY Total		36,490.28	0.00	-9,375.00	-20,625.00	9,407.36	15,897.64
CERTIFICATE OF DEPOSIT							
CERTIFICATE OF DEPOSITS							
CERTIFICATE OF DEPOSITS							
CORV001CD	OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16	1,160.83	0.00	0.00	-818.13	1,647.30	1,990.00
		1,160.83	0.00	0.00	-818.13	1,647.30	1,990.00
CERTIFICATE OF DEPOSIT Total		1,160.83	0.00	0.00	-818.13	1,647.30	1,990.00
CERTIFICATE OF DEPOSIT Total		1,160.83	0.00	0.00	-818.13	1,647.30	1,990.00
CASH							
CASH & EQUIVALENTS							
CASH							
CASH	CASH 0.100% Due 07-01-13	0.00	0.00	0.00	0.00	0.00	0.00



INTEREST ACCRUALS
CITY OF CORVALLIS TOTAL
 From 05-31-13 To 06-30-13

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Earned Interest	Ending Accrued Interest
CBANK3	Corvallis Wells Fargo 0.250% Due 07-01-13	0.00	0.00	0.00	0.00	0.00	0.00
		0.00	0.00	0.00	0.00	0.00	0.00
	CASH & EQUIVALENTS Total	0.00	0.00	0.00	0.00	0.00	0.00
	OR STATE POOL						
	STATE INVESTMENT POOL						
ORPOOL	OREGON STATE POOL 0.540% Due 07-01-13	0.00	0.00	0.00	-11,695.21	11,695.21	0.00
		0.00	0.00	0.00	-11,695.21	11,695.21	0.00
	OR STATE POOL Total	0.00	0.00	0.00	-11,695.21	11,695.21	0.00
	CASH Total	0.00	0.00	0.00	-11,695.21	11,695.21	0.00
	TOTAL PORTFOLIO	38,972.61	0.00	-9,375.00	-34,631.15	23,104.72	18,071.18

<u>Investment/Issuer Types</u>			<u>Other</u>		
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 agency securities are held with US Bank, the City's third-party safekeeper and OSU Federal Credit Union.

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 2013**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	6,250,426	6,783,546	(533,120)
Projected Activity	9,203,664	8,962,710	240,954
Difference	(2,953,238)	(2,179,164)	(774,074)

(1) Receipts are all revenue deposits for the month, including interest income. State Shared Revenues, Transient Room Tax and Grants due to revenues 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. Savings in general services, as well as the carryover of Building and Land Acquisitions for FY 13/14 contributed to lower than anticipated disbursements. Final Fiscal year 2012-2013 expenditures were disbursed in July for a total of 1.964 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 2013

Fund	Fund Name	* Month's Avg Cash Balance	Interest Distributed	Fund	Fund Name	* Month's Avg Cash Balance	Interest Distributed
101	General	3,489,996.76	1,944.40	460	Davidson Library	5,751.14	3.10
201	Street	625,225.23	335.60	501	Water	1,694,612.63	937.45
208	Street SDC	2,487,169.47	1,348.39	502	Water Timber	595,068.54	304.27
210	Parks & Recreation	1,669,970.64	938.13	508	Water SDC	4,922,359.48	2,664.55
211	Parks & Recreation - Aquatics	35,768.83	37.23	509	Water Construction	27,292.45	8.24
212	Open Space	94,922.56	51.49	520	Wastewater	2,410,528.25	1,287.89
218	Parks SDC	2,147,759.93	1,156.50	528	Wastewater SDC	9,223,100.10	4,991.97
220	911	485,865.34	288.69	529	Wastewater Construction	103,056.36	54.57
230	Development Services	1,332,512.52	672.05	540	Storm Water	1,235,221.71	671.39
240	Fire & Rescue	1,439,334.60	861.49	548	Storm Water SDC	87,974.05	46.95
250	Comm Dev Revolving	(171,965.06)	(92.76)	549	Storm Water Construction	46,146.38	26.83
260	Parking	1,027,917.29	557.55	560	Airport	662,281.24	356.40
270	Transit	1,797,844.68	973.34	569	Airport Construction	1,994.28	0.76
290	Library	1,059,589.40	645.54	610	Fleet Maintenance	74,391.55	39.74
291	Library 2010	407,131.11	220.97	615	Facility Maintenance	255,979.47	139.89
301	Capital Improvement	600,800.59	375.76	620	Technology & Communications	627,599.79	349.62
401	General Obligation Debt Service	(35,360.06)	129.60	625	Administrative Services	580,044.92	310.74
				630	Risk Management	905,446.29	492.77
Total						41,953,332.46	23,131.10

* Most investments earn interest over a 3 or 6 month period, so even if the most recent monthly average is positive, if prior months' cash balances in a given fund were negative, this could result in net negative earnings for that fund in the month interest is paid.

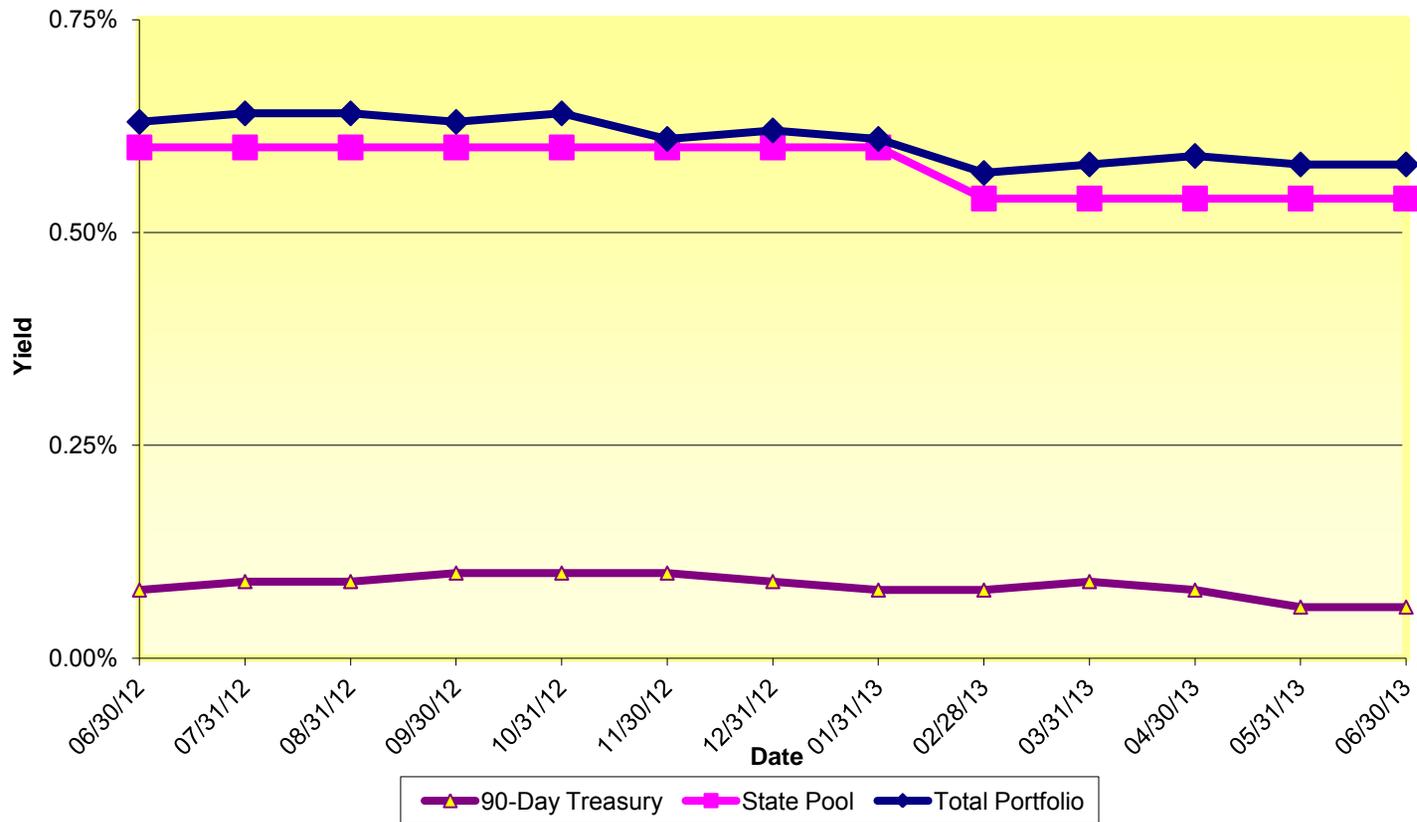
The accrual method of accounting is used for investments. The interest distributed will equal the monthly interest income accrual, net any amortization or accretion on a premium/discount paid on an investment; this is also net of the previous fiscal year's GASB 31 Fair Value Adjustment reversal.

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

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

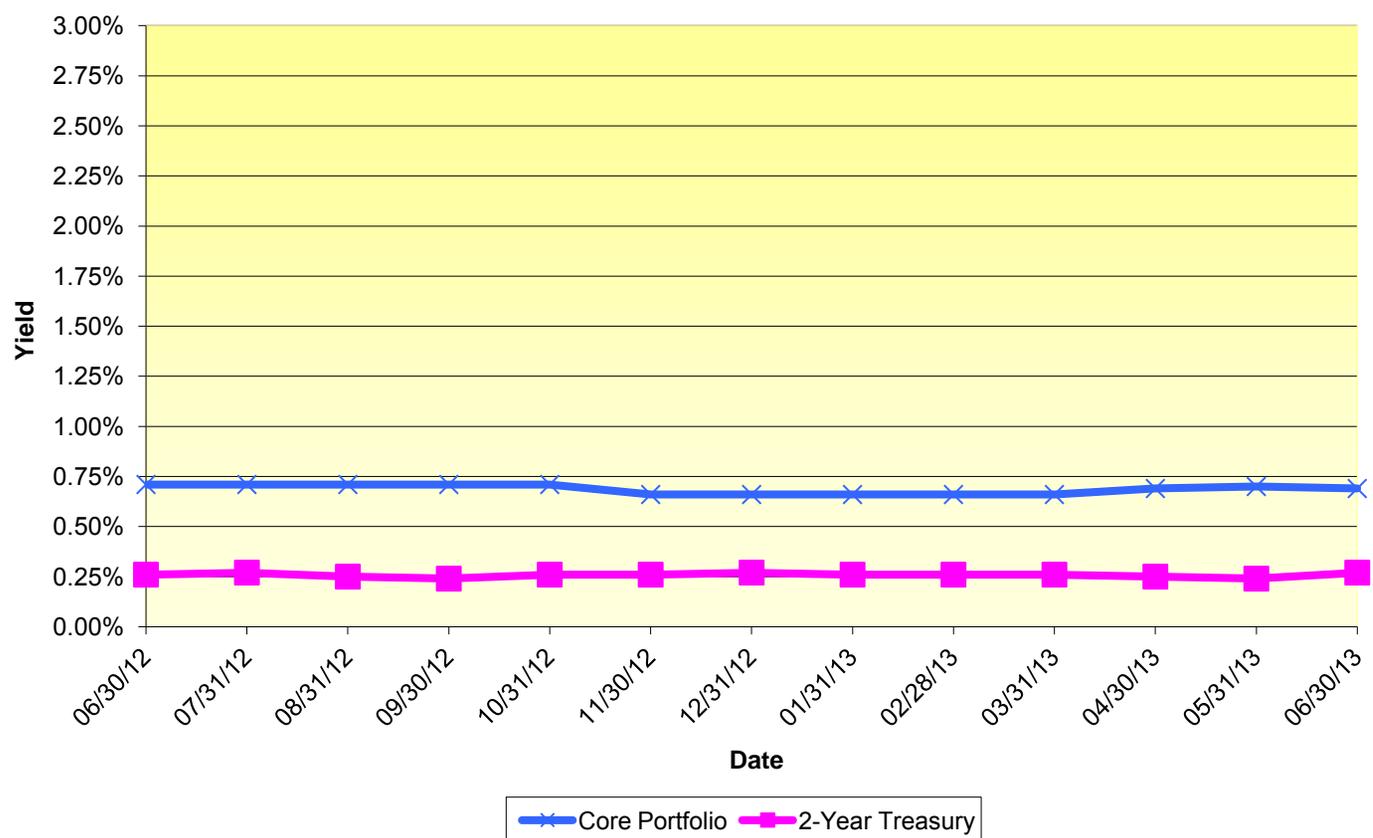


City of Corvallis Total Portfolio vs. Benchmark June 2012 - June 2013



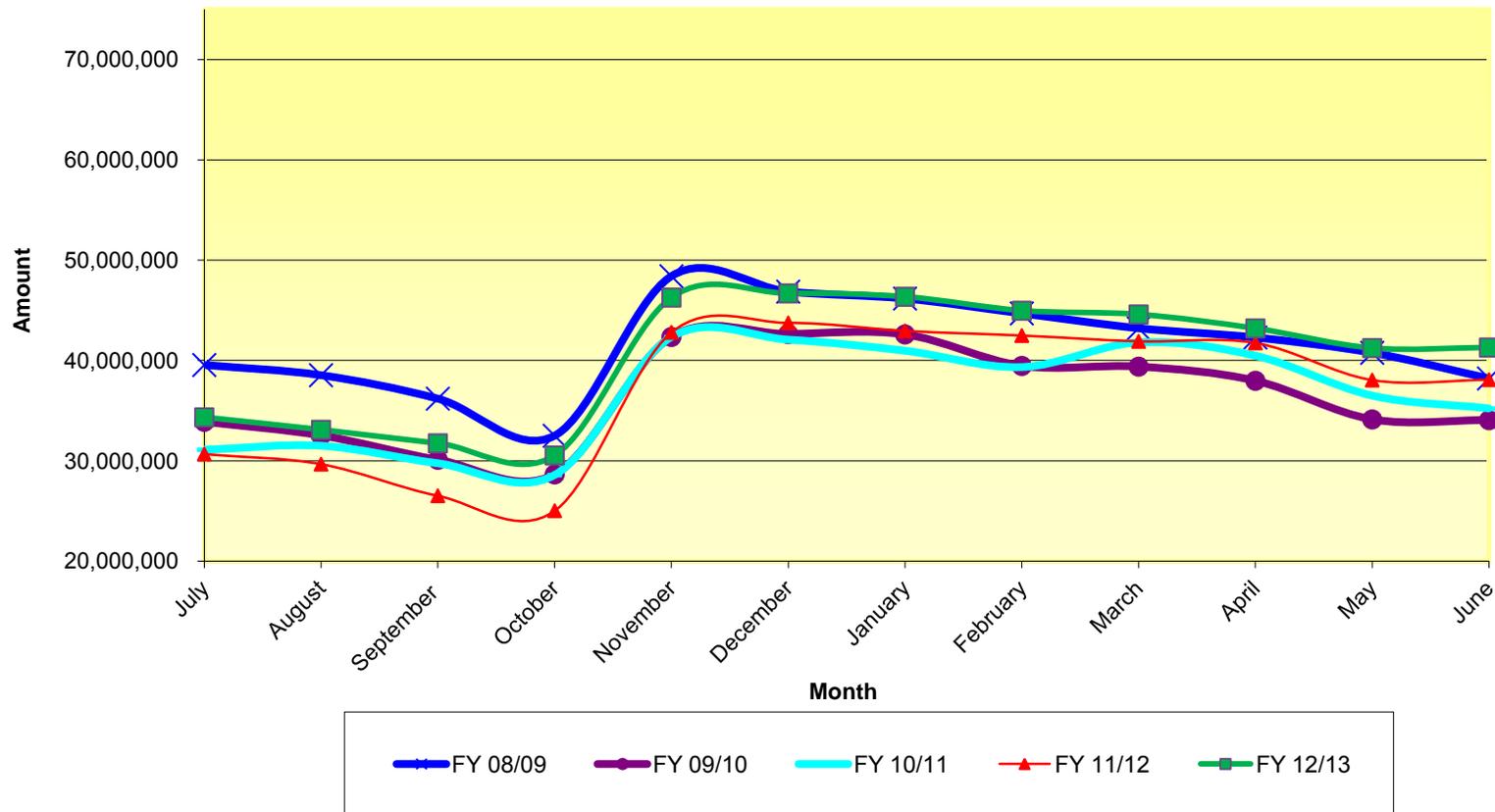


City of Corvallis Core Portfolio vs. Benchmark June 2012 - June 2013





City of Corvallis Cash & Investments





City of Corvallis Cash and Investments By Quarter

